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MODELING BUSINESS TURNAROUND STRATEGIES USING VERIFIER DETERMINANTS FROM EARLY WARNING SIGNS THEORY

by

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EXECUTIVE SUMMARY

The management dilemma emanates from the inadequacy and weakly detailed turnaround models available for use by entrepreneurs and turnaround practitioners in South Africa. To add to this problem previous legislation did not provide any protection to the debtor in any turnaround attempts. New debtor friendly legislation comes into effect in 2011. This research aims to identify the verifiers for signs and causes of potential failure. The construct verifier determinant is theoretically defined and included into a practical turnaround framework.

The primary objectives of the study are to:

- Identify and theoretically define early warning sign “verifier determinants”
- To design and include “verifier determinants” as an integral part of a turnaround plan that supports corrective action.

The secondary objectives of this study are to:

- Research the current formal turnaround practices, which are applied in the United States of America, Canada, Australia, Africa and informal practices evident in South Africa. These findings are aligned to include the changes in the applicable South African legislation.
- Design and propose a framework for use by turnaround practitioners and entrepreneurs alike (conforming to new legislation).
- Identify which “verifier determinants” will confirm the early warning and apply this outcome to the design of a reliable turnaround framework, acceptable to all creditors and financial institutions.
- The final objective is to contribute to the South African entrepreneurial, turnaround body of knowledge, and future formal studies in this academically ill-represented field.

The effectiveness of business turnaround depends on the chosen strategy. The literature review in this proposal deals with the following aspects; venture risk propensity, early warning signs and failure models, legal constraints / opportunities and finally turnaround. Current formal turnaround routes are, due to various negativities and high costs, often not practical and a more informal approach is favoured.

Methodology:

- Through comprehensive literature research to identify and theoretically define “verifier determinants” that confirm the early warning sign and causes.
- Apply in depth interviews to identify the use of verifier determinants by specialist turnaround practitioners.
- Confirm the actual use and value of the verifier determinants by experts and practitioners during turnarounds, Design and include “verifier determinants” as an integral part of a turnaround framework that supports rehabilitation of the business.
- Compare the formal turnaround practices, which are applied in other jurisdictions such as the United States of America, Canada, Australia, Africa will be investigated.
- Adapt the framework cognisant of Chapter six of the companies Act, Act 71 of 2008 requirements and recommend to formal and informal turnaround practices relevant in South Africa.

For this study, a leading commercial bank was selected as the organisation of choice, due to the accessibility to information, research data, and turnaround respondents. For selecting the case studies used for evaluation during interviews, the researcher relied on businesses that were already subjected to BASEL II Accord categorisation criteria and had ex post facto histories. The study applied two research methods. An interview method was used to identify actual verifier determinants used in practice. The interrogation of the participants was done, using the Repertory Grid method, thus forcing choices and explanation of interviewee reasoning.

Participants were purposely selected to ensure representation within the identified risk categories. As result, a comprehensive turnaround framework is compiled.

The study aligns these findings with the new South African legislation, and designs a turnaround framework for use by turnaround professional practitioners, entrepreneurs and affected persons alike. This study introduced a number of new constructs that can be used in a business turnaround context, namely:

- business triage
- verifier determinant
- turnaround framework, introducing the constructs "business triage" and "verifier determinant" a timeline schedule for executing the rescue process

This study highlighted the importance of establishing the true value of a business in the early stages of the turnaround process. Verifiers can be used successfully to determine the extent of the problem ("depth of the rot"), the difficulties involved and reduce time requirements for analysis.

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Gloria in Excelsis Deo

Gerhard Holtzhauzen
Kempton Park
April 2011

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CHAPTER 1
INTRODUCTION AND STUDY DESIGN

"No matter what the state of the economy, no company is immune from internal hard times – stagnation or declining performance".

Hofer (1980:19)

1.1 INTRODUCTION

Turnaround management, as observed in the South African context, is a new management discipline that is currently being robustly pursued by both business and academics alike. In this regard, the imminent date for implementation of the long-awaited rescue legislation has created many opportunities, which have resulted in a rush for the most favourable positioning in this 'newborn' industry in South Africa. In a proposed turnaround, the first salient decision to make is to either follow the formal route, as prescribed by legislation in "Business Rescue and Compromise with Creditors" Chapter 6 of the Companies Act (Act 71 of 2008) or to adopt an informal approach to turnaround. The Companies Act, Act 61 of 1973, will be referred to as the old Companies Act, and the Companies Act, Act 71 of 2008, will be referred to as the new Companies Act.

Interchangeable use of the following words, depending on the original author referenced, to describe "company":

Company = Business = Organisation = Venture = Business

The alternative of an informal approach to turnaround is prescribed by the International Association of Restructuring, Insolvency and Bankruptcy Professionals INSOL principles, as discussed by the United Nations Commission of International Trade Law's Multinational Judicial Colloquium (INSOL Professionals, 1995:35), and the so-called London Approach.

This study uses early warning sign theory to establish the verifier determinants that can guide entrepreneurs and turnaround practitioners in the critical role of timely planning for the current rescue and future sustainability of an enterprise. Although extensively explored later in this study, for now a verifier determinant is defined as a confirmation of an early warning sign.

Chapter 6 of the new Companies Act formalises business rescue via a formal commercial process that includes a consultative process and a moratorium period, and that maximises the likelihood of the company's continued existence on a solvent basis. Current formal turnarounds are based on those methodologies and/or actions that have already been recorded and tested in courts of law via Sections 311 and 427 of the old Companies Act and South African Insolvency Law, Act 24 of 1936. Consequently, this research identifies and discusses a number of models, or rather turnaround actions, of turnaround planning. Currently, there is little by way of guidelines or recorded turnaround plans in South Africa that addresses "verifier determinants".

Bolton's London Approach (2003:52) has its main application in the bank syndicates of informal consortia that attempt to restructure a business's debt. He makes it known that this process is "confined to bank lenders, conducted in secret negotiations, and generally involves both a temporary stay on bank debt payments and a pro-rata debt forgiveness ('hair-cut')". Iskander, Meyerman, Gray and Hagen (1999:43) advise that the London Approach has been in use in the United Kingdom since 1989 and has become well known across the globe.

Although the method for investigating a business is not prescribed or explained by law, the requirement to "investigate" the affairs of the company is a clear rule of law. For example, Section 141(1) of the new Companies Act reads as follows: "As soon as practicable after being appointed, a practitioner must investigate the company's affairs, business, property, and financial situation, and after having done so, consider whether there is any reasonable prospect of the company being rescued."

With very limited time available to construct a business rescue plan, the practitioner will need to develop a unique modelling process in order to be in a position to formulate the rescue plan. A turnaround practitioner will most probably be appointed whatever strategic approach the entrepreneur (board of directors and/or shareholders) decides on. The appointment (formal or informal) of a turnaround manager is made primarily by the board of a company and is sanctioned by the stakeholders.

Section 128 of Chapter 6 of the new Act describes the stakeholders as affected persons who are shareholders, all classes of creditors' organised labour, staff and any other party that may be affected. In formal proceedings, stakeholders will also be in a position to appoint or to remove a practitioner through a court-driven process.

The following are examples of theories and models that address the actions of turnaround practitioners:

Eisenhardt (1989a:58) encapsulates the agency theory. Agency theory concerns the relationship between a principal and his/her agent. Effective turnaround management requires quick decision making in the early stages of distraught circumstances. The appointment of a turnaround practitioner is done with the expectancy of a close relationship between a principal (shareholder/s, director/s and/or stakeholder/s) and a manager (in a turnaround context this is the turnaround practitioner). Eisenhardt (1989c:544) discusses the making of fast strategic decisions in high-velocity environments. However, without a sound strategy, Hedley (1976:2) is convinced that corporate survival itself may be called into question. It can thus be deduced that the practitioner in his/her role as appointed agent must be in a position where he/she is mandated by the principle of taking quick and decisive decisions. This will include formulating short and medium-term strategies.

Hofer (1980:19), and Hambrick and Schecter (1983:235), on the other hand, debate the steps taken at the commencement of a turnaround. They argue that a turnaround starts with cost-cutting exercises, although they omit to discuss the very first step in a turnaround event, that of analysing the business.

Other researchers and authors, such as O'Neill (1986), Boyle and Desai (1989, 1991), Gopal (1991),Hubbard, Lofstrom and Richard (1994), Oliver and Fredenberg (1997), Castelli and Kontoyianni (1999), Theriot, Roopchand, Stigter and Bond (2000),Collard (2002) and Fetterman (2003), concentrate on the analysis phase as the initial step in the process of turnaround. They promote the importance of understanding the turnaround event before embarking on steps commonly referred to as "stopping the bleeding". Bruton, Ahlstrom and Wan (2001:148) argue that the business must stop the bleeding through retrenchments and immediate "cut-backs".

Pearce and Robbins (1993:624) agree that stabilising the business (stopping the bleeding) is the first stage of turnaround. Moreover, they emphasise the second phase as being the "recovery response". This recovery response in the turnaround process highlights the effective correction of the root causes of the decline.

Meanwhile, Chapman (2003) criticises the relatively short period of one month available to Australian companies to come up with a turnaround plan. This time frame is closely related to the length of time prescribed for the rescue process (25 days) in South Africa, as described in Chapter 6 of the new Companies Act. Al-Shaikh (1998:81) ponders on the steps in turnaround as being firstly the conducting of feasibility studies and then securing support from interested authorities, such as lenders and trade creditors.

The subtle balance required in the initial stage of a turnaround is critical for managing a chaotic environment. Moncarz and Kron (1993:180) advocate the identification of problem areas as the first step to turnaround. Balgobin and Pandit (2001:304) state that the four elements aiding a successful turnaround strategy are:

- situation analysis
- gaining control
- managing shareholders
- improving motivation.

Cross (2002:41) advocates the initial analysis of a company's performance concerning its finances, operations and market. Fetterman (2003:11), Glantz (2003:323), Scherrer (2003:27), Lohrke, Bedeian and Palmer (2004:172) and Burbank (2005:56) agree that the first stage of a turnaround is a situation analysis. Cole (1994:48) underpins the importance of data integrity in the initial stages of a due diligence (see section 1.2.1).

Cole (1994:48) states that it is crucial to get entrepreneurs to understand that providing high-quality information will speed up the process. This study concentrates on the validation of the problem areas, or warning sign areas, identified. Gilmore and Kazanjian (1989:81) distinguish between group and individual decision making. From a turnaround perspective, both these types will have value, but as most turnarounds require an autocratic approach the individual decision types will have more influence. In the analysis phase, selecting the process format of the analysis is the most crucial decision in a turnaround event: this decision is whether to attempt the turnaround or not.

The turnaround practitioner in South Africa must, within 25 days of being appointed, construct a turnaround plan, which must be adopted by all stakeholders within ten days of publication of the plan. Figure 5.1 in chapter 5 illustrates the timeline requirements of the Act. In this regard, Merrifield (1993:384) proposes a disciplined analytical process before a turnaround process can commence. Although traditional methods of analysing a business should suffice, the time constraint is an important consideration.

The intention of this research is to design and develop a framework to enable practitioners to function within this time constraint, as well as the prescriptions of the new Companies Act.

1.2 CURRENT METHODS OF BUSINESS ASSESSMENT

1.2.1 DUE DILIGENCE

The most common and most generally accepted method for analysing and testing the feasibility of a business is perhaps the “due diligence” method. A due diligence process is used by business analysts to analyse and test the assiduousness of a business venture and is the process predominantly applied in merger and acquisition considerations. Cole (1994:46) lists the following critical due diligence elements:

- successor environmental liability
- integrity of business’s historical financial statements
- adequacy and sufficiency of assets
- intellectual property, patents and know-how
- technical expertise
- quality of all personnel and key management
- quality of projected cash flow and after-tax earnings

Hubbard, Lofstrom and Richard (1994:1) confirm the importance of a due diligence process, but warn that companies have little guidance on what constitutes a good due diligence process and are restricted to their own experience. It is imperative that the due diligence process is done within a very short period as, in a turnaround event, very little time is available to “fish” for information.

1.2.2 BUSINESS REVIEW

Akason and Kepler (1993:38) have set some guidelines for a management review, which are also applicable to turnaround planning. They ponder on their finding that a business review “goes far beyond mere due diligence processes” and differentiate a due diligence from a business review by calling a due diligence a “cookbook approach” or a reactive process using a checklist indicating "yes" or "no" decisions.

However, Akason and Kepler (1993:38) opines that a business review, if correctly executed, covers everything in the business it is a "proactive process that generates a live, working document that can be used in a value-creating manner" and can be used as a management tool in the future.

1.2.3 VALUATION METHODOLOGY

The two most important questions that need to be answered when a turnaround event occurs are the following:

1. In a distressed business scenario, should a turnaround be attempted or not?

2. In a distressed business scenario, will the turnaround have the desired results?

Hence, the most important decision the practitioner must consider is whether there is a reasonable prospect for continuing with the business. Accordingly, after a turnaround practitioner has been appointed he/she must establish the feasibility of turning the business around.

Chapter 6 of the new Act, requires the turnaround practitioner to "**consider** whether there is any **reasonable prospect of the company being rescued"** (researcher's emphasis).

The answer to considering a "reasonable prospect" lies in evaluating the business as a going concern. Grounded theory by Hershkowitz (2004) was used to investigate various valuation methods and their applicability. Referring back to the two questions mentioned at the beginning of this section, a solvency (liabilities exceeding assets) versus liquidity (non-cash working capital cycle) or cash flow (ability to generate cash to meet short-term obligations) valuation is suggested to satisfy question 1. Bolton (2003:43) discusses the significance of a valuation as the first stage of a turnaround event and identifies some important "transformation" steps in an attempt to preserve the business:

- Preserve the liquidation value of the business.
- Maintain the going-concern value of the business.
- Form committees to conduct restructure negotiations.
- Negotiate new funds.
- Take note of modern reorganisation law.

The main inference from Section 141(1) of the new Companies Act is that the turnaround practitioner has to confirm (with the stakeholders) the status (solvency and liquidity position) of the business, regardless of which route he/she anticipates embarking upon. Briggs (in Cross 2002:44) confirms that in a turnaround situation there cannot be any sacred cows. She concludes with a question to the entrepreneur: “Are you willing to sign a document that states that everything is on the table? If not, I will leave now and you are on your own.” In closing, the above methods are processes that have been tested and proven in various applications but are now being applied to a turnaround event.

The main constraint of the measures discussed above is time – they are excellent processes if the analyst has the luxury of time. In conclusion, it should be stated that turnaround modelling should address, as its main departure point, the time limitations imposed by Chapter 6 of the new Act.

1.3 TURNAROUND TRIAGE

In medical terms, Moskop and Iserson (2007:276) describe three basic steps for traige:

- The scarcity of resources which will prompt a process of triage.
- The triage officer assesses patient’s medical needs by conducting a brief examination.
- The triage officer then uses a set of criteria to implement a priority treatment plan.

Moskop and Iserson (2007:276) conclude that, if the triage officers use an established plan, it confirms that a group of persons must have developed the plan. Crawford (1994:27) supports the triage approach when he states that the turnaround practitioner must perform an on-site “brutally frank assessment of the company’s condition”. He refers to this action as “on-site triage”.

This study refers to this very first stage in a turnaround situation as “turnaround triage”. The term ‘triage’ has its foundation in World War I, and is derived from the French word *trier* meaning ‘to sort’. As explained by Moskop and Iserson (2007:275), triage was used exclusively by the medical fraternity. However, medical triage has a very close affiliation to turnaround triage. Table 1.1 illustrates the difference between medical triage and business triage as identified by this study.

Table 1.1 Comparison of medical triage (Moskop & Iserson 2007:279) and business triage (own compilation)

MEDICAL versus BUSINESS TRIAGE	
• **MEDICAL TRIAGE**	• **BUSINESS TRIAGE**
• a) Those patients who can be saved but whose lives are in immediate danger, requiring treatment immediately or within a few hours (red triage tag: “immediate”; priority 1)	• a) Those businesses who can be saved but whose sustainability is under immediate threat , (financially distressed) requiring turnaround immediately or within a limited time span (red triage tag: “immediate”; priority 1)
• b) Those patients whose lives are not in immediate danger but who need urgent but not immediate medical care (yellow triage tag: “delayed”; priority 2)	• b) Those businesses whose sustainability is not under immediate threat(financial distressed within next six months) but who need urgent intervention but not immediate turnaround (yellow triage tag: “delayed”; priority 2)
• c) Those patients requiring only minor treatment (green triage tag: “minimal”; priority 3)	• c) Those businesses requiring only minor intervention (green triage tag:“minimal”; priority 3)
• d) Those patients who are psychologically traumatized and might need reassurance or sedation if acutely disturbed (no specific triage tag)	• d) Those businesses who are still profitable but psychologically traumatized and might need new strategic direction –informal turnaround (no specific triage tag)
• e) Those patients whose condition exceeds the available therapeutic resources, who have severe injuries such as irradiation or burns to such an extent and degree that they cannot be saved in the specific circumstances of time and place, or complex surgical cases that oblige the physician to make a choice between them and other patients (black triage tag: “expectant”; no priority)	• e) Those businesses whose financial distress exceeds the liquidity and solvency tests , to such a degree that they cannot be saved in the specific circumstances of time and place (gone concern) (black triage tag: “expectant”; no priority)
• This last category, “expectant,” which encompasses those who are dead or who are “beyond emergency care,” carries the most emotional and ethical baggage for individuals doing triage.	• This last category, “expectant,” which encompasses those businesses who are gone concerns who are beyond turnaround intervention.

Answers to the following three basic questions, in this specific order, are the most important aspects to consider when contemplating a business turnaround:

- Is there a business? (Harker and Sharma, 2000:41)
- How sick is the business? (Castogiovannii, Balga and Kidwell, 1992:27)
- Is the business worth saving? (Quinn, Mutzberg and James, 1988:680)

Pretorius (2008a:23) discusses Porter's five strategic forces in a turnaround context. Figure 1.1 illustrates his views on turnaround theory, where turnaround situations are depicted in the four quadrants.

Pretorius approaches the turnaround situation by placing the business under consideration in one of the quadrants. The shaded oval drawn across the four quadrants illustrates the concept of "business triage".

The shaded area represents the turnaround area, which is to a greater or lesser extent evident in each quadrant. To give an example, in the 'performing well' quadrant, the obvious mistake would be to ignore early warning signs. Who would expect a business to experience distress in this quadrant?

Nevertheless, a turnaround intervention may at some time be necessary in this quadrant, as such businesses are prone to overtrading. Overtrading is one of the most dangerous situations a business can find itself in.

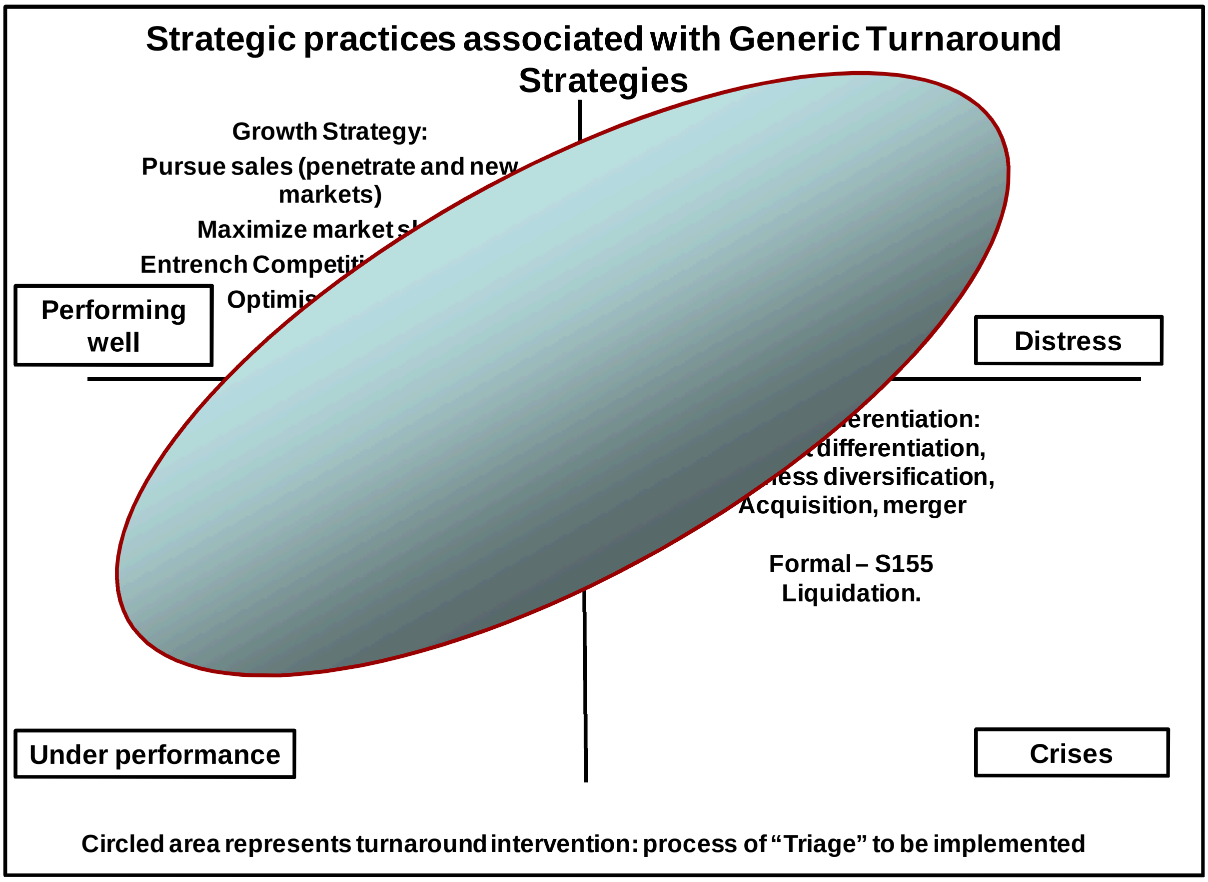

Figure 1.1 Verifier strategic practices associated with generic turnaround strategies and triage (adapted from Pretorius, 2008:24)

1.4 MOTIVE FOR THE STUDY

The motive for this research vests in management's dilemma, which the board of a company may resolve according to Section 129(1) of the new Companies Act, that is, that the company should voluntarily begin business rescue proceedings. If management fails to adopt a resolution in this regard and if the board of a company has reasonable grounds to believe that the company is financially distressed, the board must set out its reasons for not adopting a resolution in terms of Section 129(7) of the Act.

The general deduction from this sequence of events is that entrepreneurs (management and/or directors) will be forced to continuously analyse their businesses.

Currently, apart from the prescriptions of Chapter 6 of the new Companies Act, there is no acknowledged turnaround model available to entrepreneurs and turnaround practitioners that is appropriate for application within the time constraints of the Act. To add to this problem, legislation in its current and future form does not provide entrepreneurs with any protection concerning informal turnaround attempts. Chapter 6 of the new Companies Act, Act 73 of 2008, addresses the problem of formal turnarounds, but this new Act still requires testing in the courts.

Section 128(b) (i–iii) of the Companies Act describes business turnaround as follows:

Section 128(b) ***"business rescue"*** *means proceedings to facilitate the rehabilitation of a company that is financially distressed by providing for—*

(i) *the temporary supervision of the company, and of the management of its affairs, business and property;*

(ii) *a temporary moratorium on the rights of claimants against the company or in respect of property in its possession; and*

(iii) *the* ***development and implementation, if approved, of a plan*** *to rescue the company by* ***restructuring its affairs, business, property, debt and other liabilities, and equity in a manner that maximises the likelihood of the company continuing in existence on a solvent basis*** *or, if it is not possible for the company to so continue in existence, results in a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company.*

This gives rise to the question: How can entrepreneurs react to early warning signs in order to attempt corrective action and effect turnarounds in time, and if need be, as per Section 129(1) of the Act, appoint a professional turnaround practitioner? When a turnaround event in terms of Chapter 6 of the Act occurs, the dilemma facing the entire body of role players and/or stakeholders is whether to commence with a turnaround of the affected business or not.

Referring back to the three crucial questions stated earlier, the following questions have to be answered:

- Is there a business?
- How sick is the business?
- Is the business worth saving?

Brenneman (1998:162) adds another valid question to the three questions above, asking: “When did it last make money?”. The primary objective of a business venture is to be profitable, thus to make money. In this regard, the affected persons will firstly be management, as they have to decide on what Brenneman (1998:165) calls a “go forward plan” or turnaround strategy. Moreover, all the creditors (all categories) will have to be convinced that the business has the potential to survive after informal, or formal, proceedings in terms of Chapter 6 of the Act.

Finally, if the feasibility of attempting a turnaround is challenged, the courts will have to be satisfied that a business can in fact be turned around, before ruling in favour of the turnaround.

1.5 VERIFIER DETERMINANT THEORY

Correctly identifying the causes of a business’s decline through the application of early warning sign theory is of the utmost importance in effectively addressing the question of whether or not to continue with a business turnaround strategy. At this stage, the suggestion is that the turnaround decision is one of the very first steps in the turnaround process.

The focus, however, is on the development of a plan by practitioners in conjunction with management. This plan should be specifically designed to reorganise the business.

Less evident are the measures to confirm the signs once identified. These events are identified as "verifier determinants" (the construct). At this stage, this is still an unfamiliar concept and is therefore explored by this study.

This study pursued the following course of action:

1. Theoretically define the construct "verifier determinant".
2. Identify verifier determinants that will authenticate early warning signs in a specific time frame.
3. Strategically identify and action corrective measures.

Propose concepts to be included in the turnaround model.

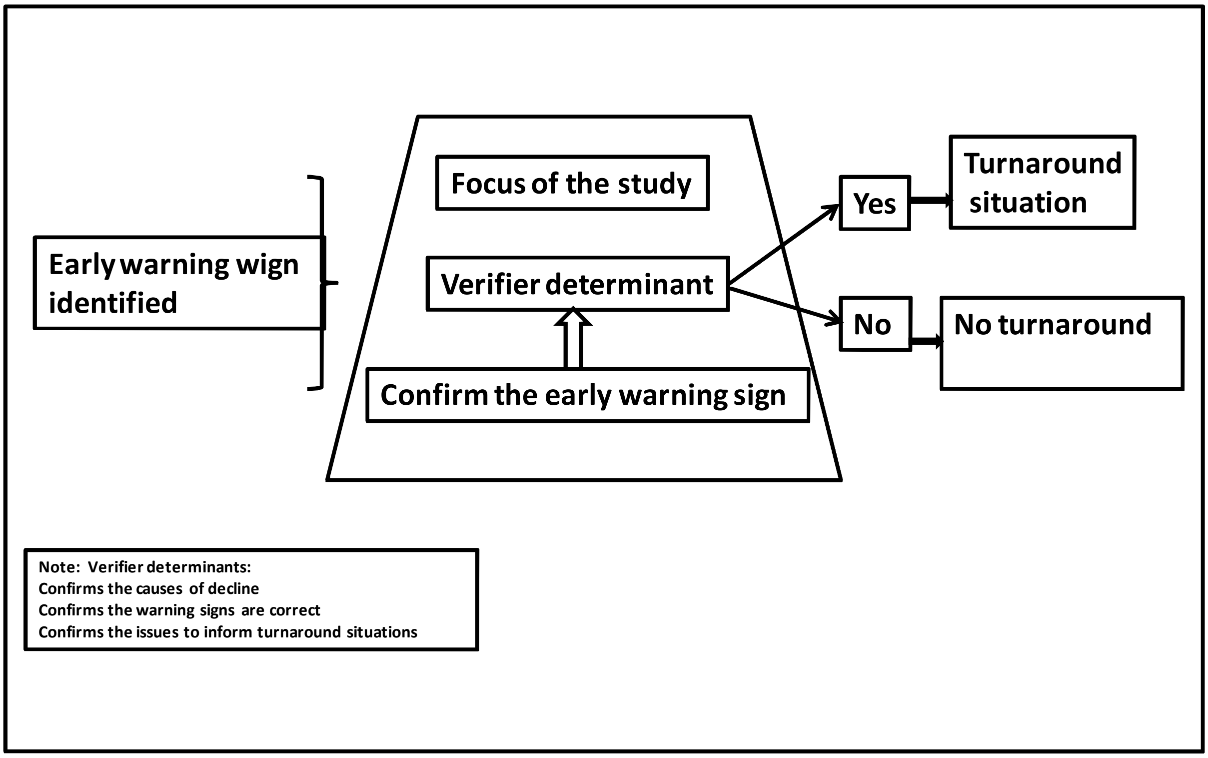

Figure 1.2 Verifier determinant theory as applied in this study

The importance of this study is emphasised by the uncertainties that the following three statements present:

1. Entrepreneurs are not likely to know what the construct "verifier determinant" is or whether it will confirm a specific set of early warning signs.

2. The question to be asked is whether there is a common understanding among lending practitioners (mainly bankers) of the construct "verifier determinant"?

3. Are verifier determinants in evidence in distressed businesses to initiate or to take corrective action in good time? Measured by the number of businesses in liquidation, the answer is clearly "no".

Verifier determinants, once identified, impact significantly by authenticating warning signs and can be used progressively in the diagnostic phase of the turnaround process. The effectiveness of business turnarounds depends on the strategy chosen and the verifier determinants will be an important strategy component.

The literature review in this research deals with the following aspects: early warning signs, failure models, legal constraints/opportunities and, finally, turnaround. The empirical study aims to propose a functional turnaround model as a basis for attempting turnarounds. Figure1.3 outlines the topics discussed in each of the chapters in this study.

Thus, chapter 2 deals with the high-risk propensity which is a characteristic of entrepreneurs. Chapter 3 deals with the available literature on early warning signs; this was scrutinised to ensure that all current and available literature is included. Subsequently, the literature and theory on turnaround processes, strategy and actions are investigated in chapter 4. Finally, chapter 5 covers the legal systems of foreign countries, such as the United States of America and the European Union. Accordingly, the laws of these countries and their interpretation are scrutinised.

Figure 1.3 graphically displays the process followed in the literature research and in the chapter layout.

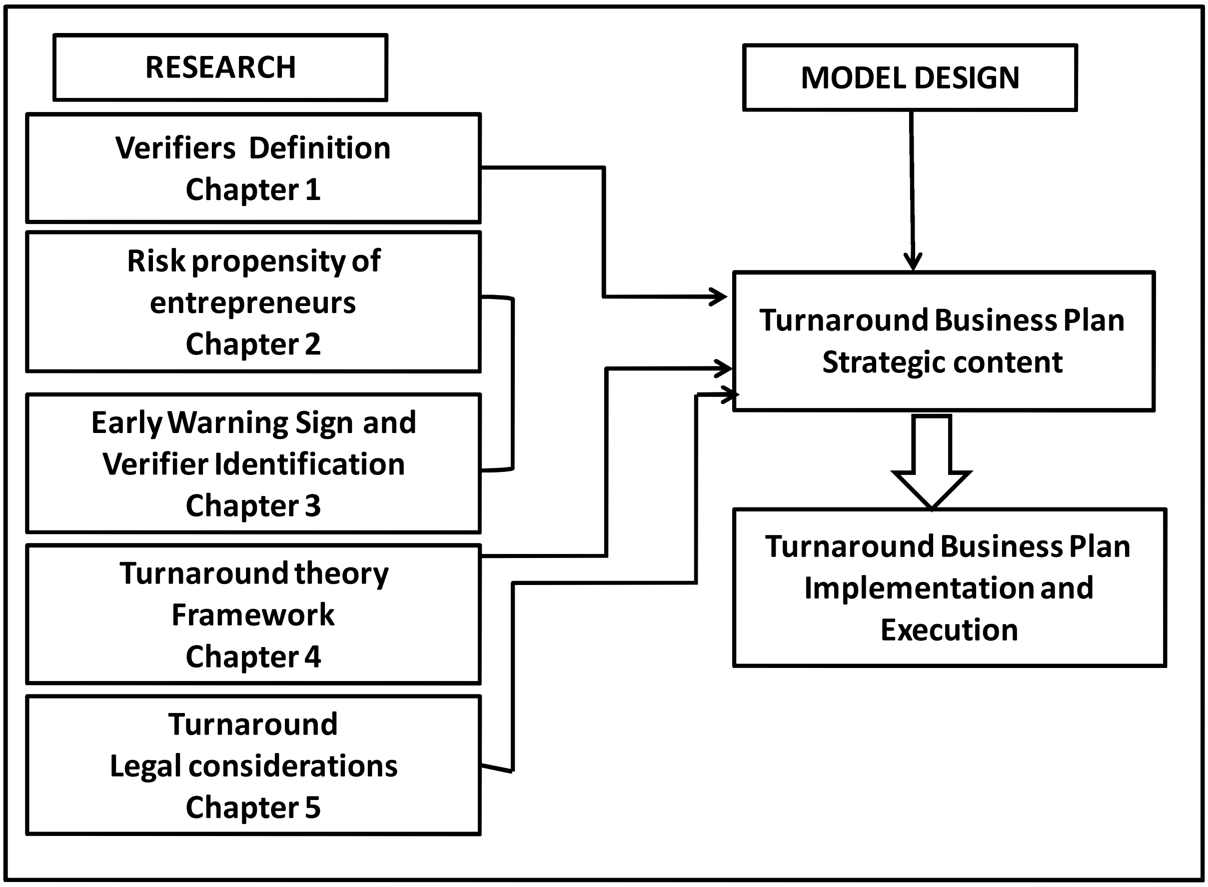

Figure 1.3 Literature chapters and topics covered in this study

1.6 RESEARCH OBJECTIVE

The following objectives of this research are outlined:

1.6.1 PRIMARY OBJECTIVES

- Identify and theoretically define early warning "verifier determinants".
- Identify and include verifier determinants as an integral part of a turnaround plan that supports corrective action.

1.6.2 SECONDARY OBJECTIVES

- To research the current formal turnaround practices for verifiers, including those of the United States of America, Canada, Australia and Africa, and the informal practices evident in South Africa. These findings are aligned to include the changes in the applicable South African legislation.

- To design and propose a framework for use by turnaround practitioners and entrepreneurs alike.

- To identify which verifier determinants will confirm the early warning sign, and apply this outcome to the design of a reliable turnaround framework that is accepted by all creditors and financial institutions.

- To contribute to the South African entrepreneurial, turnaround fraternity, and to future formal studies in this academically ill-represented field.

The research conducted an investigation into various early warning signs, turnaround management, and legal constructs and elements. One of the major changes in legislation that needs to be considered here is that the turnaround of a troubled business must first be attempted before winding up or liquidating the concern. King (2009) includes this provision in the King III report on corporate governance.

Although not enforceable by law, the King II and III reports are considered the rule for corporate governance in South Africa (Lawlor and Haynes, 2003:13). A suggestion is that the new legislation follows a model such as Chapter 11 proceedings in the United States of America (Corporate Law Reform, 2004:42). The intention to follow international legislation is manifested largely in Chapter 6 of the Act. The main objective of new legislation must be that the entrepreneur and the turnaround practitioner develop a turnaround plan that is specifically designed to reorganise and rescue the business.

1.7 PROBLEM STATEMENT

The possibility of business failure in a high-risk environment is a fact that entrepreneurs frequently need to face. Pretorius (2004:260) mentions that between 30 to 80% of all new businesses fail within two years of inception. Decline is, however, not limited to the first two years, as it can happen at any time during the business's life cycle. The early warning signs of business failure were and still are the main topic of research in this area (see also section 3.2).

Literature on early warnings signs indicates that researchers, such as Lorange and Nelson (1987), Boyle and Desai (1981), Scherre (2003), also identified the causes of the warning signs. What needs to be confirmed is the root causes of the decline. In this study a 'verifier determinant' is defined as the 'root' indicator that validates the cause of decline or distress that underscores the early warning sign These verifier determinants confirm the associated causes and early warning signs of business decline. Once identified and confirmed, the verifier determinants inform the turnaround situation. Ventures have different risk propensities and the question is whether turnaround practitioners or entrepreneurs can employ verifier determinants to confirm the distress causes in the businesses.

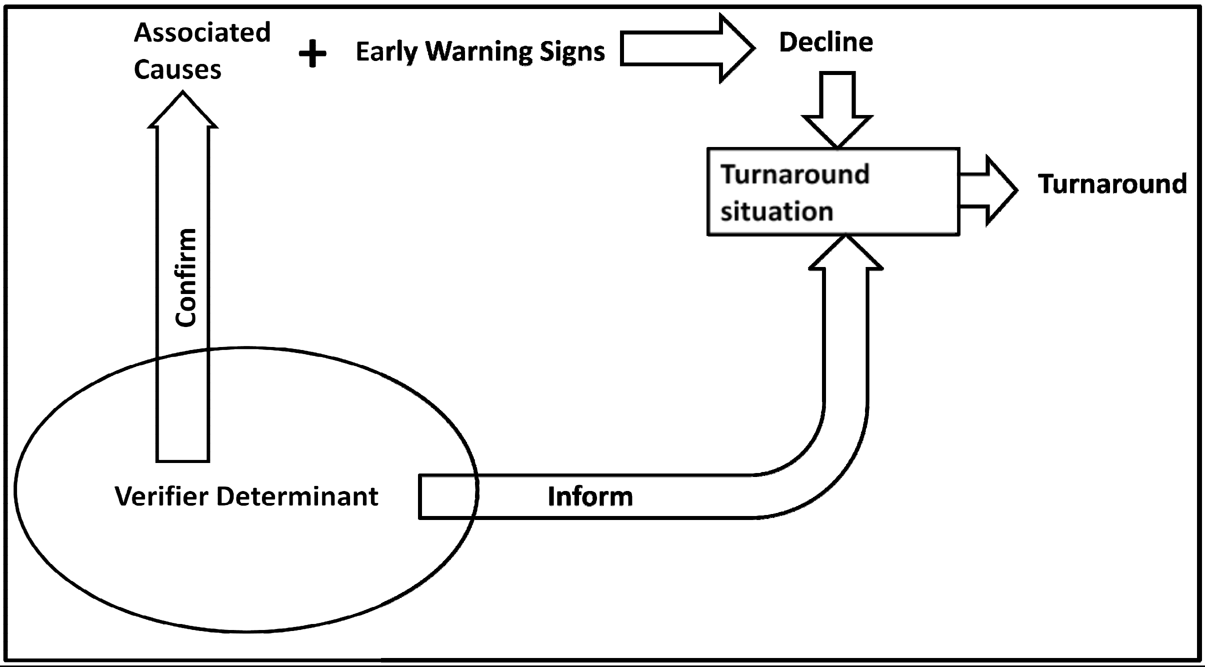

Figure 1.4 The role of verifier determinants in a turnaround situation

The entrepreneur's enterprise is more vulnerable due to a lack of understanding of the real value and efficient use of a well-constructed turnaround plan. This absence of a turnaround plan inevitably leads to default on financial commitments and possible business failure. Creditors place huge reliance on turnaround plans, as these plans will determine future support. However, if the compiler is not careful, under current legislation a proposed turnaround plan can be construed as an act of insolvency. In view of this, the changes in South African corporate legislation are expected to address some of these issues, but entrepreneurs and/or turnaround practitioners need to create "faith" in the concept of a turnaround plan.

Problem statement: To identify verifier determinants that will confirm early warning signs and causes, and inform turnaround plans through enhanced situation analysis.

A sound knowledge of the financial statements, the business's tax position and any failed strategy is vital for achieving turnaround success. Hence, verifier determinants confirm the integrity of the data to be used in a turnaround.

1.8 TERMS USED INTERCHANGEABLY IN THIS THESIS

Financial distress – distress, decline, failure
Turnaround – rescue, realignment, restructure, reorganisation, renewal
Stakeholders – shareholders, creditors, organised labour
Strategic planning – strategy-making, strategy format
Turnaround plan – the plan, strategic plan, rescue plan
Turnaround situation – turnaround event
Situation analysis – due diligence processes, feasibility, business review, business audit, analytical process
Early warning signs – causes of decline, root causes of failure, variables of success and/or decline
Business – company, venture, business, organisation

1.9 REFERENCING TECHNIQUE

The Harvard referencing system is used throughout this study.

1.10 CHAPTER OUTLINE

Chapter 2	*Risk propensity of entrepreneurial ventures*	This chapter explains the risk propensity of entrepreneurs and their physiological reaction to business turnaround events. The chapter concludes with a brief overview to the South African status quo on turnarounds.
Chapter 3	*Academic debate of identification of business decline*	This chapter outlines and explains the evolvement of warning signs and its field of application. Literature content illustrates the debate on business failure and decline.
Chapter 4	*Theoretical development on turnaround management*	The theoretical development flow of turnaround theory and philosophy, and the subsequent modelling of turnaround processes are embodied in this chapter.
Chapter 5	*A literature review on turnaround legislative measures*	This chapter deals with international trends in business rescue legislation. Discussions include the old and new South African legislation. The rescue requirements of Chapter 6 of the Companies Act, Act 71 of 2008, are discussed.

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Chapter 6	*Research design and methodology*	This chapter explains the research problem, the objectives of the study and the hypotheses. Background to the case study selection and the questionnaire design is given.
Chapter 7	*Research findings*	This chapter reports the empirical findings from the data compiled from the questionnaires. The statistical analysis is explained in detail against the backdrop of demographical information and more descriptive inferences.
Chapter 8	*Conclusion*	The closing chapter proposes a framework for turnaround modelling, based on the empirical findings. The research is concluded by revisiting the hypothesis and research objectives. Future research areas are also proposed.

CHAPTER 2
Risk propensity of entrepreneurial ventures

CHAPTER 2
RISK PROPENSITY OF ENTREPRENEURIAL VENTURES

"When a company is in trouble, finding and understanding the sources of problems is not as simple as looking into a mirror."

Barker (2005:44)

2.1 INTRODUCTION

This chapter explains the risk propensity of entrepreneurs and their psychological reaction to business turnaround events. The chapter concludes with a summarised overview of the South African status quo on turnarounds.

2.2 RISK PROPENSITY OF ENTREPRENEURS

Business ventures are faced with the constant risk of decline. When the business is deteriorating, entrepreneurs often do not understand the problem, nor do they take it seriously, consequently, they do not take sufficient steps to address the problems. Counterfactual thinking and cognitive studies should be applied to the identification of deteriorating business activities. In addition, the psychological effect of deterioration, failure and turnaround is increasingly being incorporated into entrepreneurial cognitive studies. Sutton and Callahan (1987:412) investigated and discussed the spoilt image of the business and its management as a result of bankruptcy. For any economy, it is important that entrepreneurs re-enter the market.

In a Boston Consulting Group Report, Bose and Pal (2002:3) conclude that "entrepreneurs who can transcend failure and learn from their experience have proven to be precious assets to their country's economy: they drive growth and they create employment, and they do this more successfully than entrepreneurs who have never failed".

Amaral and Baptista (2007:2) state that an entrepreneur who re-enters the business arena after a business failure (or for any other reason) is defined as a "habitual" entrepreneur. According to these authors, a "…habitual entrepreneur is an individual who has established and/or inherited and/or purchased more than one business, as opposed to novice entrepreneurs who have established, inherited and/or only purchased one business…".

The concept of "risk taking" is closely associated with entrepreneurial behaviour. The entrepreneur's appetite to take on risk is illustrated through his/her management and leadership styles. Hatch and Zweig (2000:69) ponder the entrepreneur's rationalisation of high risk taking, and their diminished perception of the risk. Wickham (2004:17) indicates that entrepreneurial characteristics include

- the need for autonomy
- the need to be in control of a situation
- a desire to face risk
- creativity
- a need for independence
- the desire to show leadership qualities.

The process of entrepreneurship follows the various stages of the business life cycle. Researchers, such as Flynn and Forman (2001:43), Terpstra and Olson (1993:14), Kazanjian and Drazin (1990:138), and Platt and Platt (1994:117), conclude that an array of different problems can face organisations in various stages of their life cycle.

Following the business life cycle, it is clear that the entrepreneur will be faced with decline and/or failure somewhere in this cycle. Flynn and Forman (2001:54) argue that business failure relates to the entrepreneur's inability to adapt to the various stages of the business life cycle. Researchers such as Altman (1983:18) and Amburgey, Kelly and Barnett (1993:69) conclude that, in their research's data distribution with respect to the age of the business, the findings clearly indicate that the risk of failure is business age dependant and that more than 50% of all failures occur in the first five years.

Argenti (1976:15) identifies three categories of company:

- Type I businesses are launched but never take off and fail within a few years.
- Type II businesses are launched and soar to incredible levels and then collapse.
- Type III businesses are launched and mature, and then trade optimally over several years.

Amaral and Baptista (2007:4) argue that the entrepreneur's survival is not dependant on the business's successes and/or failures and draw a distinction between business survival and entrepreneurial survival. Holtz-Eakin, Joulfaian and Rosen (1994:53) examined the phenomenon that some individuals/entrepreneurs survive and others do not. Accordingly, they conclude that the undercapitalisation of ventures plays an integral part in the survival of entrepreneurs. Lohrke, Bedeian and Palmer (2004:63) discuss the important role of top management in periods of decline. They argue that for management to be successful in situations of decline, they should establish the cause of the performance lapse "...quickly and accurately...". Identifying these causes correctly will determine the decisions made for prompt recovery or turnaround.

To ensure survival, entrepreneurs must be properly equipped to adopt a strategic turnaround approach. Azoulay and Scott (2001:340) argue that entrepreneurs will find it difficult or will be unable, to change their routines unless they firstly recognise those routines as being imperfect. It is important that these imperfections should be recognised in good time to ensure that the entrepreneur can still change them.

2.3 PSYCHOLOGY OF BUSINESS TURNAROUND

In the South African context, the entrepreneur usually "fails" in the business. Moreover, the way creditors secure themselves inevitably leads to the entrepreneur also being sequestrated as a result of mandatory personal suretyships.

The rehabilitation process, often protracted over ten years, effectively removes the entrepreneur from the business scene. Pretorius (2004:261) argues that the entrepreneur probably never contemplates failure, especially when starting a new venture. Entrepreneurial studies done by Forbes (1999:415) and Gaglio (2004:535) tend to focus on venture creation, opportunity identification and positive change and neglected decline and distress as part of the business cycle. Owing to the stigma of bankruptcy and failure, distress is often concealed from all the stakeholders. Argenti (1997:442) identifies five categories of stakeholder in debating stakeholders' approach to business; these are, investors, employees, customers, suppliers and the relevant community. According to Sutton and Callahan (1987:412), demise cannot be concealed for long and the facts can only be concealed for a limited period. Unfortunately, concealing the facts will lead to less time and increased difficulty in effecting a successful turnaround. It also has a serious psychological impact on the entrepreneur, directors and management of the distressed business.

Argenti (1997:445) is of the opinion that stakeholder theory of running a business for the benefit of all stakeholders is an impossible dream, a philosophically misconceived idea. This is contrary to what the South African government is trying to achieve by involving all role players ("shareholders" according to the Argenti definition) in the rescue of a business. Midanek (2002:22) argues that an entrepreneur's ego sometimes gets in the way. However, to rise to a successful level of top management or entrepreneurship requires confidence and a good measure of ego strength. Midanek ponders on this characteristic and concludes that this phenomenon, "high ego", causes the entrepreneur or manager to "see" the bigger picture. The driving force behind entrepreneurs is clearly identified by need theory, as identified by McClelland (1961), achievement motivation (n-ach), authority/power motivation (n-pow) and affiliation motivation (n-aff). Entrepreneurial organisations are further characterised by strong leadership and direction from the entrepreneur.

Wickham (2004:135) argues that an organisation's very survival depends on the leadership structure living its goals, as well as a focus on competitive locations. Using need theory, McClelland identifies the organisation as part of the motivational force of managers or entrepreneurs.

According to Quinn *et al.* (1988:83), the entrepreneur is driven, above all, by his need for achievement. The entrepreneur's organisational goal is simply the extension of his own goals. It is concluded that the dominant goal of the organisation operating in the entrepreneurial mode is growth, which is the most tangible manifestation of achievement. (A second motive closely related to behaviour in organisational settings is the need for power [n-Pow].) It would appear that the concept of a "high need for power" is associated with leadership and actual power, but only when it occurs in combination with certain other factors, as was demonstrated in the longitudinal study conducted by McClelland (in Robert, 1986:196). In his article "Characteristics of successful entrepreneurs", Dollinger (2003:38) states that, over the past few decades, entrepreneurial research has identified a number of personality characteristics that differentiate entrepreneurs from other people.

Similarly, McClelland (in Robert, 1986) identifies certain characteristics of entrepreneurs. He sees the individual entrepreneur as a promoter of his/her own career with a focus on strategies of advancement, and views entrepreneurs as innovative, independent people and moderate risk takers, whose role as business leaders conveys a source of formal authority.

Simons (1999:85) argues that businesses seldom consider risk management when times are good, profits are up, optimism is on a high, and markets are growing. In these favourable conditions, businesses tend to ignore early warning signs. It is also not clear when a business is going to "hit a significant bump" or if a major change in strategy is needed. Entrepreneurs need to understand the conditions that create unacceptable levels of risk and decline.

Early warning signs, failure prediction and its causes have been researched extensively over the past forty years. In light of the entrepreneur's high propensity to take risks, this study theoretically defines and uses verifier determinants in proposing a turnaround plan.

2.4 RISK PROPENSITY OF VENTURES

Wickham (2004:134) emphasises the entrepreneur as the main focus point for contingency in the entrepreneurial process. The decision-making process, and the acceptance of risk, thus centres on the entrepreneur's leadership ability. Pretorius (2004:261) argues that achieving personal goals is the driving force for entrepreneurs to start businesses. It can be argued that achieving personal goals is therefore the reason why entrepreneurs are prepared to accept a high-risk environment. A high propensity for risk-taking is therefore an entrepreneurial trait (Gilmore, Carson & O'Donnell, 2004:350).

With the formation of a new venture, entrepreneurs usually rely firstly on their own financial contribution, sacrificing earnings and non-fiscal benefits. Kerins, Smith and Smith (2004:387) argue that an entrepreneur must commit significantly to financial, human capital and opportunity costs. Kerins *et al.* (2004:403), conclude that entrepreneurs have a much higher opportunity cost of capital than well-diversified investors. Role players operating in the risk environment are entrepreneurs, financiers, lawyers, suppliers and customers, who dictate financial, operational and strategic planning.

It is within the borders of this environment that entrepreneurs develop personal goals, create new ventures and operate their businesses. Entrepreneurs meet the challenge to make decisions under 'calculated' risk scenarios and adopt a leadership role in the process. Simons (1999:85) argues that the pressure to achieve challenging goals can stimulate entrepreneurial creativity and innovation that lead to superior financial performance. The deduction is then that the focus point of entrepreneurial behaviour is the aspect of risk and leadership. Entrepreneurs will obviously approach risk in different ways. According to Dollinger (2003:7), entrepreneurship exists under conditions of risk and uncertainty. Wickham (2004:196) holds the opinion that entrepreneurs make decisions under conditions of ambiguity rather than risk, while Everett and Watson (1998:371) distinguish between the economy-based risks, industry-based risks and business-based risks unique to the business.

Changes in the first two risks, over which the entrepreneur has little or no control, are usually dealt with under risk contingency plans. In dealing with business-based risks, entrepreneurs react to distress in their business in different ways. Orme (2002:26) opines that some entrepreneurs will withdraw from business activities, some will enter a phase of denial and some will immediately accept the unique circumstances.

Richardson, Nwankwo and Richardson (1994:14) conclude that success and arrogance are closely related to entrepreneurs failing. Koellinger, Minniti and Schade (2007:512) researched the entrepreneurial overconfidence that leads to entrepreneurs perceiving themselves as skilled, able and opportunistic in identifying business opportunities. Unsuccessful entrepreneurs will go through various stages, firstly one of denial (Francis & Desai, 2005:1203), and then finally acceptance. Owing to the very characteristics of entrepreneurs, which among others, include perseverance and goal achievement, entrepreneurs will try to continue with business activities under conditions of distress. Simons (1999:87) warns that the pressures (self-inflicted owing to fear of failure) to achieve challenging goals can bring unintended risks. Entrepreneurs take calculated risks throughout the various stages of the entrepreneurial process.

Van Vuuren (2005) describes the entrepreneurial process as consisting of the pre-start-up phase, start-up and survival phase, which is 0 to 3 years, early growth 4 to 10 years, and the maturity phase 10 to 15 years. Finally, the harvest – or stability – phase, 15 to 20 years. The risk propensities can be further categorised into possible entrepreneurial behavioural risk patterns in the various stages of the entrepreneurial cycle:

- Pre-start-up = appetite for risk
- 0–3 years = moderate/calculated risk-taking
- 4–10 years = calculated risk-taking
- 10–15 years = high risk factors, uncalculated risk-taking
- 15–20 years = low risk-taking

Garcia (2006:7) argues that many entrepreneurs are late in recognising that “business-as-usual” practices need to change when their businesses start to deteriorate; accordingly, entrepreneurs’ actions usually reflect defensive and aggressive attitudes that are not conducive to the continuation of cordial business relations with their creditors.

In her studies, Gaglio (2004:535) argues that opportunity identification through entrepreneurial cognition and veridical (truthful) interpretation requires a correct perception of the changing situation by the entrepreneur. Veridical interpretation entails that the entrepreneur correctly establish the real causes of change. Gaglio (2004:539) concludes that alert entrepreneurs may respond to change or surprise earlier than non-alert entrepreneurs. The key to repositioning the business is for the entrepreneur to accept that mistakes have been made and to understand where and why these mistakes were made. Garcia (2006:4) argues that an ineffective response to crisis causes a competitive disadvantage. Entrepreneurs need to re-strategise and reorganise the business and maintain growth and profitability.

Orme (2004:26) argues that the entrepreneur goes through various phases of denial, depression, anger and, finally, acceptance. Agreeing with this statement, Altman (1984a:171) suggests that it is more sensible to detect impending failure well ahead in order to be able to take corrective action. In support of Altman’s view, Chowdhury and Lang (1993:8) state that, whilst failure is not inevitable, entrepreneurs and/or managers can, through discretionary actions, stop and reverse decline in the business. Lohrke *et al.* (2004) conclude that it is necessary to look beyond financial decline to broader indices that trigger the turnaround process. Unfortunately, at the current juncture, entrepreneurs face various challenges when attempting to turn around their business. These challenges are, but are not limited to, legal, management, financial and/or product constraints. Gopinath (1995a:76) concludes that for banks (and turnaround managers) “strategies are dependent on the perceptions of the causes of the problems”.

Seen in the light of the above discussion, there is always risk when entrepreneurs start ventures. Moreover, there is also risk associated with turnaround situations; hence, the proposed verifier determinants will assist in managing that risk.

2.5 QUO VADIS?

Internationally, business turnaround theory is embedded in legislation and a comprehensive body of knowledge is available. The shortage of theory in South Africa highlights the need for research on designing a business turnaround strategy, tailor-made for the South African business environment. Most businesses concentrate on creating innovative plans to ensure growth. A turnaround is concerned mainly with the rescue, reorganisation, restructure and repair of substance, which has malfunctioned in the business process. The administration of a business is perceived to be visible, as management knows exactly what is to be done – whereas a large portion of the turnaround vocation scope is hidden and unknown.

During the normal business process, uncertainties within the operating environment are imposed and dealt with. In a turnaround environment, there is an additional and significant level of uncertainty. As a turnaround progresses, the surfacing of unexpected negative information is considered as a turnaround trap, for example: James (2002:49) reported that he, after commencing with a turnaround, discovered that an important order had been cancelled five months earlier. As the order was about 20% of annual turnover, the result was a horrendously overstocked situation. The extent to which any decline has manifested itself in a business will only emerge after the turnaround practitioner has commenced work. Newly discovered “decay” and “rot” may lead to the failure of the turnaround plan.

This study investigates the management discipline of business turnaround both currently and in the future. Business turnaround is a relatively new concept in the field of South African business management science. Owing to its infancy, there is a huge shortage of appropriate literature locally. Pretorius (2006:2) confirms that there is a small body of knowledge in South Africa, although it is expanding.

Verifier determinants (which will be defined later) are used to confirm the early warning signs that are used extensively to confirm causes, verify the correct sign and substantiate issues to consider when compiling a strategic rescue plan.

The identification of verifier determinants will contribute to the uncovering of other hidden critical issues. This research focuses on the design of turnaround strategies by investigating and improving early warning signs theories. Warning sign verification will be incorporated into the structuring of the turnaround strategy as an action and timing tool. Both investors and creditors (including lenders) have a vested interest in the early detection of financial distress. This is confirmed by Aziz and Dar (2004:25), who reinforce the need for the early detection of financial distress to enable the taking of corrective action in good time.

Using verifier determinants, the turnaround practitioner and/or the entrepreneur will be able to apply the plan effectively as a business rescue tool. For the participating creditor, it may restore credibility and validity in the mechanics and rationale of business plan construction. Once credibility and validity of planning has been restored, the use of the plan as an effective preventative (counter failure) management tool can be reintroduced. With the concept of “verifier determinants” built into the early warning diagnostic structure, the entrepreneur and turnaround practitioner alike will be able to take corrective measures in time to prevent default and/or further deterioration of the business.

2.6 TURNAROUND IN SOUTH AFRICA – STATUS QUO

Turnaround in South Africa, as an industry and as a business science, is still in an early development phase. Although various informal turnarounds were, and still are, contemplated, formal turnarounds (protected by law) will only commence from mid-2011 onwards. The South African government is committed to including turnaround in the revisions of the Companies and Insolvency Acts. Leuvennink (2004:4) reports on Minister Brigitte Mabandla, the then Minister of Justice and Constitutional Development, who requested that businesses should rather be rescued (turned around) than liquidated. The Department of Trade and Industry, in its Guidelines to Corporate Law Reform (2004:42), has clearly indicated the government’s concerns regarding the winding up of companies. Statistics South Africa (2009:8) reports in their February 2010 release that the number of civil cases (summonses) for debt in South Africa increased from 254 426 in 2008 to 293 710 in 2009.

This substantial increase of 15,4% clearly demonstrates the need for corporate reform. The South African government is also committed to enforcing corporate governance through the implementation of the recommendations of the King II and III reports. Drew, Kelley and Kendrick (2006:128) argue that strategic risk management is not restricted to improvements in existing governance and ethics, but includes those risks that threaten the long-term success and survival of a business.

The government's promise to change legislation is now manifested in Chapter 6 of the new Companies Act, which will allow and regulate turnaround practices once implemented during the course of 2011. In terms of Section 128(2) of the 2008 Companies Act, the government may appoint a person or body (association) to regulate the practice of persons as practitioners. The recently established Turnaround Managers Association of Southern Africa (TMA [SA]), operating under licence to TMA International in cooperation with the Association of Business Administrators of South Africa (ABASA), is currently applying to government to take up this regulatory role. Currently, neither facilities nor academic syllabi for postgraduate accreditation for professional turnaround practitioners exist in South Africa.

The need to introduce some minimum academically accredited qualification standards for turnaround practitioners operating in the South African business environment is now being addressed by the TMA (SA). TMA International, the international body for the accreditation of turnaround practitioners is housed at the University of Chicago, in the United States of America. The main shortcoming of this from a South African perspective is that US legislation; insolvency, tax and corporate law are paramount in the syllabus of this three-year course. Various turnaround courses are presented by most of the tertiary institutions in South Africa, for example the ComTURN (South Africa) programme presented by the University of Pretoria under the auspices of the Chair in Entrepreneurship. There is a dire need to accommodate South African rescue legislation and business turnaround culture in the accreditation of existing and future South African turnaround practitioners as being able to construct a turnaround plan is instrumental in fulfilling the requirements of the new South African legislation.

It is the aim of this research to create a framework to equip entrepreneurs and turnaround practitioners with adequate background knowledge to add to the current body of knowledge and effectively create/use a turnaround plan. Any school that proposes to undertake the accreditation of turnaround practitioners will be equipped with formal guidelines to compile an acceptable, valid and reliable business turnaround plan and incorporate it as such into the proposed syllabus. Current formal turnaround routes (ss 311 and 427 of the old Companies Act) are, owing to various negativities and high costs, not desirable and entrepreneurs still favour a more informal approach. Hence, there is a multitude of dangers and constraints (acts of insolvency s 8 of the Insolvency Act, Act 24 of 1936) that impact negatively on a possible successful turnaround.

2.7 CONCLUSION

The successful running of a business is just a small part of the challenges facing entrepreneurs. The psychological impact on the entrepreneur when facing decline, distress and then turnaround should not be underestimated. It is therefore essential that entrepreneurs are equipped with extensive, integrated and applied knowledge of early warning signs that will enable them to spot the danger signs. Accordingly, they need to be equipped to formulate and implement rescue plans for saving their businesses. In conclusion, the deduction is that entrepreneurs demonstrate behavioural patterns of high-risk acceptance. The chapter has identified and addressed the need for an early warning control system in businesses.

CHAPTER 3

Academic debate on Identification of business decline

CHAPTER 3
ACADEMIC DEBATE ON IDENTIFICATION OF BUSINESS DECLINE

Constructs such as poor management, strategy, environment, and industry structure are in themselves inadequate explanations of new venture failure or success.

Singer (1995:325)

3.1 INTRODUCTION

This chapter outlines and explains the evolvement of warning signs and its field of application. The literature content illustrates the debate on business failure and decline, and the identification of the causes of decline and failure. In addition, the Companies Act (Act 71 of 2008) and, specifically Chapter 6, of the Act incorporate a few demanding prerequisites on the turnaround practitioner's strategic ability. Section 141 of this Act dictates that **"as soon as"** the turnaround practitioner has complied with the liability of data integrity, he needs "… to consider whether there is any **reasonable prospect of the company being rescued** …". In establishing whether a business has a reasonable chance of being rescued, and to be sustainable afterwards, turnaround practitioners need to establish the root cause/s for the decline and distress.

Appendix A reports on early warning signs in detail in categories and by author and serves as a basis for reasoning in this chapter.

Filatotchev and Toms (2006:427) state that the conditions responsible for the financial downturn will have to be mitigated to achieve stability. These "responsible conditions" involve warning sign variables that have to be identified and then stabilised. Grounded theory research on failure opens up a field where combinations of variables in the failure prediction scenario are used as early warning signs. In this study secondary data sources, local and international, were researched in the field of early warning signs.

In terms of turnaround and legal approaches to the investigative field of business turnaround, literature referring to early warning signs is, as a single discussion source, scarce. Early warning sign literature (grounded and other theory) is found predominantly in business failure prediction research theory. Causes of business failure or decline are also quite evident in turnaround theory, although the information tends to generalise the causes of decline. By default, researchers' investigative efforts were based on ex post facto information that had various limitations. It is therefore not surprising to find that, in almost all the literature, early warning signs are identified ex post facto during a post-mortem of the failed business. The ex post perspective is confirmed by Joseph and Lipka (2006:296) in their research on business failure.

Shepherd (2004:253) describes failures as an ex post facto phenomenon which is difficult to subject to longitudinal studies. In reviewing related academic and practitioner literature, the close association between business failure prediction and business rescue is evident. Chowdhury and Lang (1993:8) propose, based on their research and experience, that there is an association between the deteriorating performance patterns and the probability of a performance turnaround. Figure 3.1 illustrates this association as a flow process, from identification to acceptance of decline/distress and the adoption of a turnaround action.

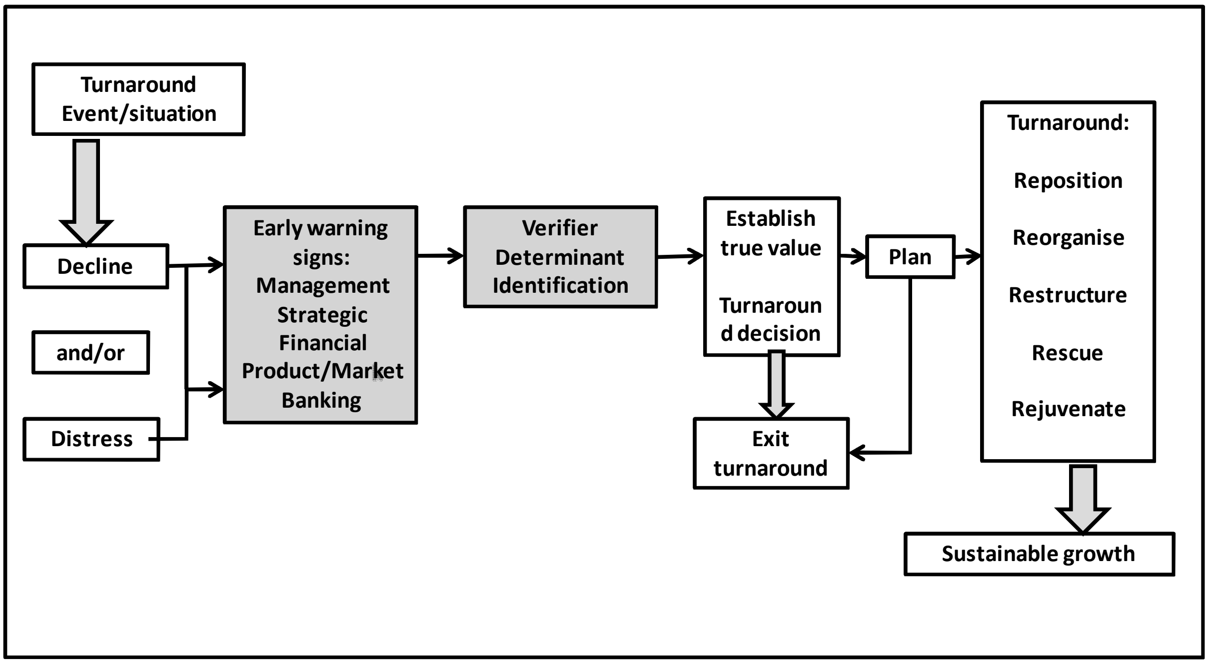

Figure 3.1 Process flow leading up to a turnaround

The prediction of business failure is dominated by quantitative methods, also referred to as accounting methods. Early warning sign theories have evolved from business failure prediction models, for example, Altman's Z-score in 1968, to more sophisticated models in use today. At the preliminary departure point in their search for predictive methodology to prevent business failure, researchers concentrated on failed businesses and focused mainly on quantitative ratio analysis. A need to include qualitative warning signs variables in quantitative research approach was identified. Researchers progressively acknowledge the significance of qualitative variables in failure prediction.

Authors such as Altman (1968), Duchesneau and Gartner (1990), Pant (1991), Lussier, (1995b), Dimitras, Zanakis and Zopounidis (1996), Altman and Narayanan (1997), and Dimitras, Slowinski, Susmaga and Zopounidis (1999) increasingly used non-accounting or qualitative information in their failure prediction modelling. Littler and Sweeting (1987:166) point out that the reliance on qualitative information is a key factor in any business assessment. Qualitative measurements were added to the modelling and new predictive methods such as neural networks, as predictive tools were introduced. Gordon and Langmaid (1988:2) conclude that the research findings of quantitative measurement on its own are not conclusive enough, thereby confirming a hybrid approach which advocates a combined qualitative and quantitative construct. Dimitras *et al.* (1996:487) argue that entrepreneurs should be aware of factors that lead to their business success. The mere absence of these success factors will solicit warning signs.

The same principle applies in the identification of variables for successful or performing businesses. The absence or negative level of these success variables is then categorised as early warning signs. Cameron, Whetten and Kim (1987:135) point out that "comparisons between growing, stable, and declining organisations" indicate that the negative attributes predicted to be associated with decline are actually characteristic of both stable and declining organisations. In addition to literature specifically referring to early warning signs, 1) business failure prediction, and 2) successful versus unsuccessful and performing versus non-performing variables were also researched and included in the greater body of early warning signs literature.

3.2 DEFINITIONS OF ORGANISATIONAL DECLINE

The aim of explaining these working definitions is to ensure the clarity of the relevant concepts for use and measurement in this study.

3.2.1 EARLY WARNING SIGNS

In attempting to formulate a definition for "early warning signs", it is important to follow the development of the debate leading to the phenomenon of early warning signs. Although Altman (1968:596) used variables like "weak" financial ratios as indicators of potential failure, it was Ansoff (1975:23) who used the term "weak signals" to describe discontinuities in organisational strategic change. Amburgey and Kelly (1993:51) conclude that, in a dynamic organisation, change can be both adaptive and disruptive.

Discontinuities do not emerge without warning and Ansoff's (1975:21) concept of "weak signals" is aimed at the early uncovering of the discontinuities or weak signals, to prevent strategic "surprises" which could contribute to an event that will jeopardise the business's continued operations.

The mere existence of various uncertainties requires a sound knowledge of the business's demographics, geography and markets. Knowledge is gathered by scanning the environment in which the business conducts its activities. Once equipped with the required knowledge, using the scanning process will allow identification of early warning signs. Ansoff (1975:26) maintains that weak signals are detected by scanning the organisational environment.

Julien, Andriambeloson and Ramangalahy (2004:254) conclude that, in general terms, weak signals are variables with which the entrepreneur has little contact and of which he/she has little comprehension because of their enclosed idiom and very different concerns. Weak signals can nonetheless present an array of innovative information.

Hills, Shrader and Lumpkin (1999:3) are of the strong opinion that weak signals are predominantly imperative in that they facilitate entrepreneurial thinking “beyond what is known, look beyond what they are used to doing, and apart from the obvious threats, help spot new opportunities for technological innovation”. Ilmola and Kuusi (2004:911) conclude the debate on the nature of weak signals. They agree that “a weak signal is, by definition, unstructured information and its implications to the organisation are at an early stage very hard to define”. A weak signal represents potential discontinuity, something that the organisation has not interpreted before.

In this context, Cannon and Edmondson (2005:303) argue that the small failures within the business are often the “early warning signs”. They maintain that if these early warning signs are detected and addressed, they “may be the key to avoiding catastrophic failure in the future”. In order to formulate a definition, this study considers and analyses the elements of the concept of “early warning signs” by applying a synonymous approach to each element.

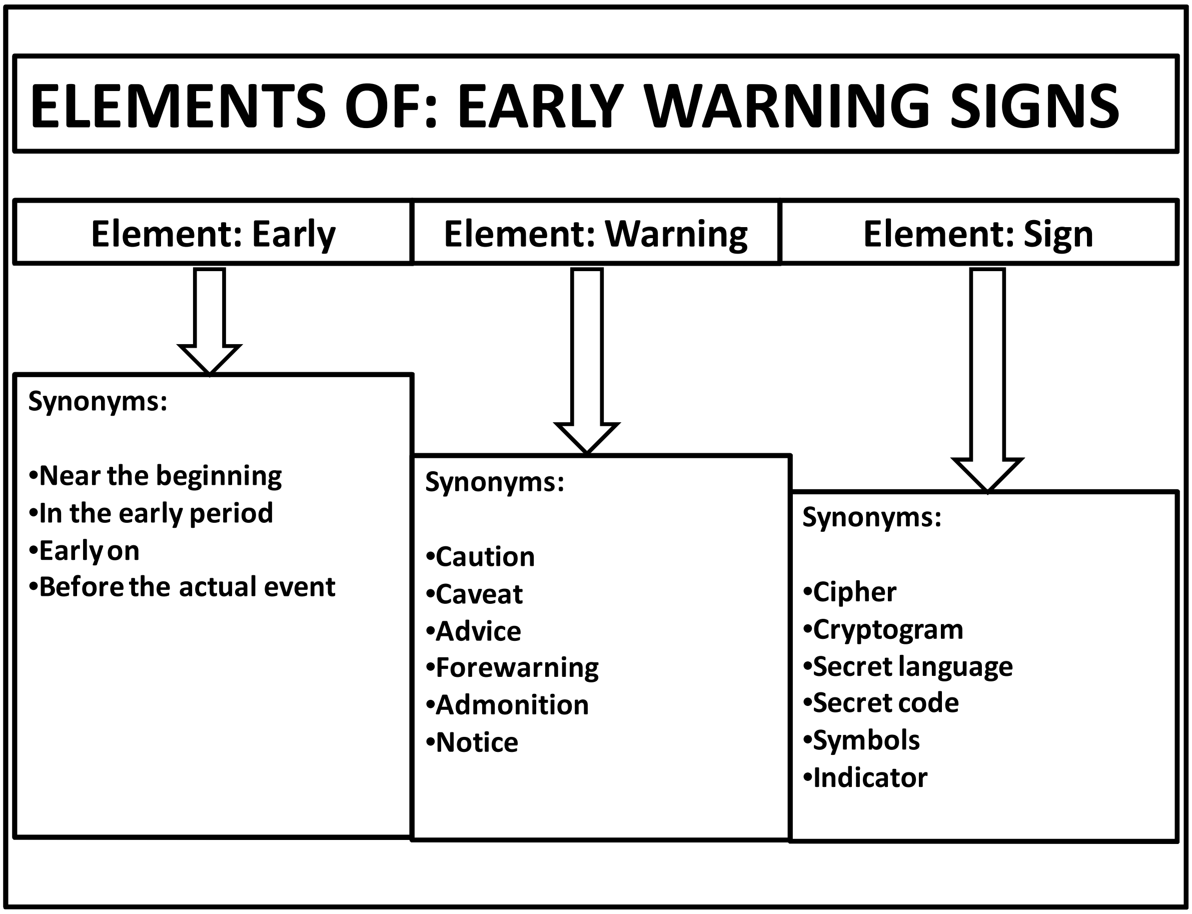

Figure 3.2 Early warning signs – elements and synonyms

The lists of synonyms in figure 3.2 stimulate the thought processes, but also allow the reader to form a comprehensive understanding of the construct “early warning sign”. Owing to the preserved vagueness of the elements, it is understandable that entrepreneurs will most probably underestimate the impact of ignoring these signals.

In an interview with the CEO of Syris Investments, Devereux (2010) defines early warning signs as follows: “An internal or external extension of an event or factor or a combination of all, that may directly or indirectly highlight the pending demise of a business or business unit if they are not addressed and rectified in the course of business.”

3.2.2 DECLINE

Cameron *et al*. (1987:136) argue that organisational decline represents a substantial reduction in an organisation’s resource base occurring over a period of time. Pretorius (2009:10) has drawn a clear distinction between distress and failure by defining “decline” as follows:

> **Decline** – A venture is in decline when its performance is worsening (decreasing resource slack) over consecutive periods and it experiences distress to continue operations. Intervention through alternative management and financial injection could keep it operating albeit not in its current form and depending on the severity of the distress (crisis). Decline is a natural precursor in the process to failure.

Pretorius definition differs from the view of Cameron *et al.* by the inclusion of the argument that the business “experiences distress”. The concept of “distress”, as defined in the following section will, however, confront this definition with the practicality of the law. For this reason, Cameron *et al*.’s definition of decline will suffice.

3.2.3 DISTRESS

An understanding of the phrase "financial distress" is of the utmost importance in future commercial action. Authors like Fredenberger, Dethomas and Ray (1993:326) discuss the various positions of financial distress. Pindado, Rodrigues and de la Torre (2008:996) conclude that a business is financially distressed in the year following the occurrence of two events. These events are 1) if the earnings before interest (EBITDA), and dividends were lower than its financial expenses for two consecutive years – thus the business cannot generate sufficient funds from its operations to service financial obligations; and 2) conditions in which there is a fall in market value between two consecutive periods

Filatotchev and Toms (2006:408) argue that financial distress is an occurrence where the business is unsuccessful in maintaining its capital, thereby reducing the value of the financial stakeholder's claims. The topic of financial distress is widely canvassed by literature; however; this study accepts the definition of financial distress as formulated in Chapter 6 of the new 2008 Companies Act.

Chapter 6 clearly defines two criteria for financial distress: the business is i) unable to pay its debts and ii) becomes insolvent, but most importantly the Act adds a six-month period in which these events can most likely take place. The unambiguous definition of financial distress presented by Chapter 6 **Section 128(1)(j)** of the Act reads as follows:

> **…** "*financially distressed'', in reference to a particular company at any particular time, means that—it appears to be reasonably unlikely that the company will be able to pay all of its debts as they fall due and payable within the immediately ensuing six months; or, it appears to be reasonably likely that the company will become insolvent within the immediately ensuing six months* … .

(Note: certain parts of this section are repeated in chapter 4 for the sake of continuity.)

3.2.4 FAILURE

Various definitions for failure have been formulated over time by academia when faced with the phenomenon of failure. Pretorius (2009:10) has done comprehensive research in formulating a definition of failure which meets the requirements of this study.

> **Failure** – *A venture fails when it involuntarily becomes unable to attract new debt or equity funding to reverse decline, consequently, it cannot continue to operate under the current ownership and management. Failure is the endpoint at discontinuance (bankruptcy) and when reached, operations cease and judicial proceedings take effect*.

3.3 EARLY WARNING SIGNS LEARNING

In reviewing various literature sources, it becomes clear that business failure prediction and early warning signs are closely related. Chowdhury and Lang (1993:8) report on research and common experience that suggests an association between the deteriorating performance patterns and the probability of a performance turnaround. Although consensus confirms this interdependence, few authors such as Cybinski (2001:33) indicate that a failure prediction model could be used as an early warning tool. The apparent limitation of the literature is that researchers failed to link or combine these two constructs.

Balcean and Ooghe (2006:87) conclude that failure prediction experiences various problems attributable “to neglect of the multidimensional nature” of failure. The multidimensional theory suggests that more than one “cause” for decline or failure exists. Chowdhury and Lang (1993:15) suggest three actions: 1) accurate attribution of causes; 2) timely action; and 3) adequate resources, for effecting a successful turnaround. The detail about turnaround plan literature is in itself scarce and the literature researched made little reference to rescue plan support.

Turnaround practitioners are reluctant to part with their knowledge and experience, as they perceive the knowledge base as being a competitive trade advantage.

In defining corporate objectives, Argenti (1969:25) set the following objective, among others: “to ensure our continued survival”. It is imperative that businesses survive to ensure benefit to all stakeholders, personnel, shareholders, clientele and suppliers (creditors). Argenti introduces the concept of “stakeholder theory”, as he argues that a business cannot have its survival as an objective alone, and concludes that if a business ceases to benefit anyone it will soon cease to survive. Argenti (1969:25) defines the stakeholder approach as follows: “the stakeholder approach’ merely asserted that ‘companies perform better the more closely they engage everyone affected by their operations’.”

The stakeholder theory was, however, later (1997) rejected by Argenti in an article titled “Stakeholder theory – the case against”.
In this conclusion, Argenti (1997:445) states that “the stakeholder theory is an idea whose time has long passed”. In the South African context, government is, through legislation, putting into practice stakeholder theory. In Chapter 6 of the Companies Act, Section 128(1) defines “affected persons” as shareholders, creditors and employees and/or their representatives. These stakeholders play an important role in the proposed turnaround effort starting with input to, and approval of, the turnaround plan. Altman (1984:171) concludes that the identification of business failure and the early warning signs of impending financial distress are of international importance in individual business performance.

Identifying early distress can lead to timely corrective action. Honjo (1998:566) argues that a new business with sufficient funds can survive a period of negative profits. If a new business wants to borrow funds it will have to convince a lender that profitability and debt repayment are achievable within a certain period. Early warning signs are used in risk profiling of potential debtors, price determination on products, risk assessment of debtors’ books, identification of areas where the business is lacking, and a whole host of other applications (Glantz, 2003:16).

Financial institutions are obliged to adopt some form of risk management process, measured against early warning signs. Pousson (1991) and Altman (2003:10) deliberate the point that financial institutions are the most frequent users of early warning sign theory. Financial institutions firstly focus on failure prediction when assessing new loans.

Pousson (1991; 2003:7) and Glantz (2003:17) are of the opinion that early warning signs are used by financial institutions in managing risk through a sophisticated risk-rating process in compliance with Basel II requirements. In this regard, Rose (2009:17) states that a more rigorous evaluation of risk, inherent in product offerings and credit default, is required to understand risk better.

3.4 BASEL EXPLAINED

In reporting on the high (excess) liquidity experienced by European banks during 2004 and the low demand for credit, Tully (2004:54) indicates that banks were making concessions to lower-rated borrowers to win their business. Davey (2004:28), who argues that in order to extend more credit finance brokers reduced haircut requirements to attract and win business, supports this view. She concludes that careful measurement of, among other things, risk management procedures must be engaged.

The Basel Accord refers to the recommendations on banking law and regulations issued by the Basel Committee on Banking Supervision. The main aim of the Accord is to create International standards that banking regulars can adopt. The standard will amongst other, regulate the minimum capital need to set aside for financial and operational risk. The international sub-prime crisis during 2008 and 2009, however, suggests that most banks did not employ adequate risk management processes. Glantz and Mun (2008:1) state: “A key objective of Basel II is to revise the rules of the 1988 Capital Accord in such a way as to align banks’ regulatory capital more closely with risk.”

The Basel II accord aligns the modern credit risk practices of its members and its foundation-based practices require that their estimates be based on the bank's (or capital market) experience.

Glantz (2003:7) argues that one of the main reasons for banks to adopt a credit money model is to estimate the probability of default and loss against default. Aziz and Dar (2004:2) argue that one of the major focuses of the Basel II regulations is to minimise credit risk for the banks: default risk – the inability to repay a loan – being the primary focal point. Basel II sternly divides risk into operational risk and financial risk, while concentrating more on financial risk and thereby affecting credit availability. In an academic response to Basel II, DanIelsson, Embrechts, Goodhardt, Keating, Muennich, Renault and Shin (2001:3) argue that the regulations fail to consider risk as an endogenous factor, applying statistical methods which are inconsistent and place too onerous a reliance on the standard approach to risk rating. Saurina and Truchardte (2004:122) discuss the negative impact of Basel II on small business in the Spanish context. A main concern was the omission and failure to recognise market volatility as an endogenous factor as emphasised by DanIelsson *et al.* (2001:4).

The array of shortcomings forced the Basel Committee to revise the regulations and create a more directive approach in the latest guidelines. Glantz (2003:233, 358), Altman and Hotchkiss (2006:168), Agarwal and Tafler (2008:1), and Glantz and Mun (2008:3) conclude that banks are obliged, under Basel II, to use an internal ratings-based approach to set minimum capital requirements in the measurement of their risk portfolios. Subsequently, the Basel II rules attracted a fair share of criticism, which later prompted change.

Altman (2003:7) confirms the purpose of Basel II, as he states that one of the main reasons for the construction of a credit-scoring model is to estimate the probability of default and loss given default. These risk measurement models prove to be accurate as the allocation of capital is at stake. Blokin and Iyer (2003:1) conclude that, from a risk management perspective, certain borrower characteristics should be incorporated into risk score models.

Banks subscribing to the standardised approach to measure credit risk will use their historical databases to investigate and establish credit risk grading (Basel Committee on Banking Supervision, 2005:98). Consequently, they will compile a unique model for each individual bank, subject to Central Bank approval.

Davis (2009:4) is of the opinion that banks will be under scrutiny by authorities, especially on the way they identify, assess and manage risks. Risks will therefore be subject to close measurement and stress testing. In determining a risk rating on specific credit lending in their portfolios, banks will have to know the risk characteristics to determine possible loss given default (LGD) (Dev, Mingo and Buckler 2009:38). Glantz (2003:311) proposes that once the LGD calculation is done, the loan then be categorised into one of the following risk categories: standard, special mention, sub-standard and doubtful. These categories are used in this research and are further explained in chapter 5.

The Basel II requirements force banks to revisit the capital adequacy linked to the concept of pricing for risk. In line with central bank requirements, risk-rating models in banks were developed that link capital adequacy and pricing to a certain risk band.

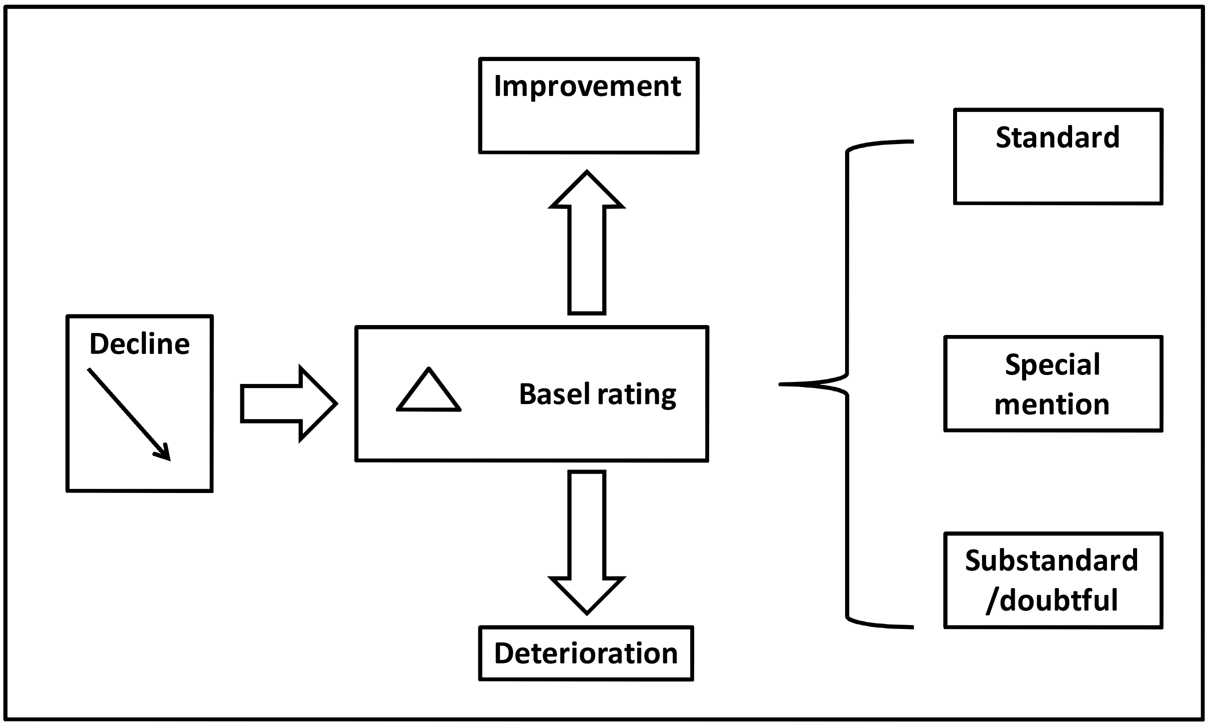

Figure 3.3 Business decline: effect on Basel II rating

The risk rating will have the obligatory effect that, in a period of decline and/or distress, the risk rating will be adjusted in line with the warning signs being triggered, moving the liability into a higher risk category. This effect is illustrated in figure 3.3. The higher the category, the stricter the capital requirements, and if no price adjustment accompanies the risk change, a potential loss situation on a still performing asset for the bank is very real. Banks will thus be forced to increase pricing on distressed or declining businesses. Increased lender pricing is not conducive to turnaround efforts. Chapter 6 of the new Companies Act will, however, allow the practitioner powers to restrict such price adjustments.

3.5 ACADEMIC DEBATE ON ORGANISATIONAL DECLINE

The academic debate on business decline and failure opens with a discussion on the path of decline and failure. Dimitras *et al.* (1996:488) describe the decline and failure of a business as a continuous process, thereby placing even more emphasis on the importance of timely dynamic early warning sign identification systems and turnaround planning in business.

Bruno and Leidecker (1987:51) maintain that the following submissions on decline and failure are valid:

- they happen over time
- identifiable factors are present
- these factors can be used to predict
- once identified these factors can lead to timely corrective action
- these factors can be both external and internal factors and need to be analysed
- poor management associated with these factors will thus be detected
- specific factors will be evident in specific industries.

Hossari (2007:75) distinguishes between decline and failure and argues that the pronouncement of failure is a sudden event.

However, the process of decline could extend over many years and the signs of distress could manifest themselves in many forms. Pretorius (2009:10), who has reported significantly on the differentiating factors of the constructs, ‘decline’ and ‘failure’, supports the distinction drawn by Hossari that companies who do not react to early warning signs create the perception that failure is a sudden event. Ignorance of early warning signs by management will have the effect that the business decline is also ignored, and corrective action is procrastinated until it is too late.

Either companies do not detect early warning signs or, as Burbank (2005:55) argues, the companies ignore signs and then fail without an attempt to implement corrective action. This ignorance emphasises the importance of identifying the variables of decline in a model, which can be used as part of management information systems. Barker (2005:44) states the reality that of “understanding the causes of failure can elude even the smartest manager”.
He discusses two facts as being problematic: the chief problem for managers is to "see" decline and the subsequent problem is to (or at all) react timeously to the decline. This confirms the views of Ansoff (1975:23) in his argument for environmental scanning to grasp the impact of signals.

Historically, from Altman (1968:589) who composed the renowned Z-Score formulae in 1968, researchers used financial ratio analysis as the main input variable for modelling failure prediction. In developing the Z-score theory, Altman focused specifically on predictive modelling using financial ratios, and failed and non-failed company data through a multiple discriminant analysis. However, businesses fail for a variety of internal and external factors and, according to Tang and Chi (2005:246), most studies exclusively use financial ratio analyses as the basis for the study of business failure.

Researchers such as Altman (1968:589; 1984a:177), Argenti (1976:13), Hamer (1983:289), Frydman, Altman and Kao (1985:269), Boritz and Kennedy (1996:512), Tsakonas, Dounis, Doumpos and Zopounidis (2006:452) use financial ratio analysis, multivariate and discriminant analysis and the effectiveness of neural networks. Ahn, Cho and Kim, (2000:66) used economic value add and algorithm techniques to predict business failure.

The predictive power of cash flow projections was later also included in failure prediction theory and Sharma (2001:3) compiled a comprehensive report on cash flow research. In addition, Jooste (2004:171) researched the net impact of cash flows' predictive qualities. The intensity of the difference in net cash generated by operating activities on the cash flow statement compared to the operating profits on the income statement is, according to Kemp (2004:6), a clear warning sign of cash disparity.

Ahn *et al.* (2000:65) argue that failure prediction models can be used as early warning systems and confirm that the variables used in prediction models are in themselves early warning signs. Dimitras *et al.* (1996:512) point out that although neural networks perform well in predicting failure, they are no better than more conventional models such as discriminant analysis and logit probit. McGurr and DeVaney (1998:169) conclude that failure prediction models, developed using mixed industry samples, are not as accurate as would be expected.

This accentuates the limited industrial business population available for research in a South African failure environment. Agarwal and Taffler (2008:1550) use accounting-based ratio analysis to draw a comparison between Altman, Taffler and market-based models, as opposed to the traditional Z-score ratios. They extended their analysis to compare the market shares, revenues and profitability of banks employing these competing models. Their research concluded that the accounting-based research approach has a significant economic benefit over the market-based approach. To stay in line with accounting practices and reporting standards, researchers were forced to adjust their financial ratio analyses to cater for these frequent changes. Altman (1978:30) suggests that the following fundamental elements be included (from the balance sheet) when calculating his Z-score analysis:

- capitalisation of leases
- reserves and contingencies
- minority interests and other liabilities
- captive finance companies and other non-consolidated subsidiaries

- goodwill and intangibles
- capitalised research and development costs
- capitalised interest and certain other deferred charges.

Owing to the very nature and availability of financial warning signs, they are usually the first signs to be investigated. The investigation happens using ratio analysis, and the warning signs that manifest in a distress situation are the following:

- reductions in working capital and cash flows
- increase in fixed and variable expenses
- dropping gross margins
- significant differences between actual and projected results
- poor return on investment
- lack of action on negative variances in budgets.

The main users of prediction models, according to Dimitras *et al.* (1999:263), are usually more confined to financial institutions, such as banks. These models are generally based on historical financial performance and, although acknowledged as important, very little research has addressed "other" warning signs. Altman (1984:175) acknowledges that non-financial variables in business failure prediction are an important measurement in prediction modelling. Some non-numerical signs used by Altman regarding managerial practices are incompetence and inexperience and others such as fraud and neglect.

The authors listed in Appendix A under financial warning signs carried out the most salient work in financial analysis in business failure. Appendix A indicates the name of the author and the period in which the research was conducted. The last column represents the ratios used by the authors in the failure prediction methodology. Sutton and Callahan (1987:406) conclude that it is expected that effective controls will lead to business success.

The failure of a business influences the entire business's existence with a resulting high cost factor and negative impact on related businesss and organisations. Bruno and Leidecker (1988:51) claim, however, that it will be more useful to have knowledge of what "factors" lead to business distress. Appetiti (1984:269) categorises businesses into two distinct categories namely "sound and unsound" businesses. An unsound business is a business that cannot meet its obligations.

This aspect is confirmed in the definition for commercial insolvency in the South-African context (s 339 of the old Companies Act) (Meskin, 2004:666). Section 128(1)(j) of Chapter 6 of the new Companies Act describes "financially distressed" companies as any inference that a company at any time appears "to be reasonably unlikely that the company will be able to pay all of its debts as they fall due and payable within the immediately ensuing six months; or it appears to be reasonably likely that the company will become insolvent within the immediately ensuing six months".

3.6 WARNING SIGNS IN THE LITERATURE

Early warning signs are discussed as all kinds of phenomena of events in business that indicate the potential demise of that business. (Refer to the definition of "early warning signs" arrived at in section 3.2.1). Warning signs are depicted as problems, challenges and poor performance indicators. As such, authors use their own explanation, phraseology or designation. Appendix A is a comprehensive summary of the early warning signs literature.

Pousson (1991) classifies early warning signs largely into the following categories:

- financial warning signs, through ratio analysis
- business and operational warning signs, such as administration, market and product analysis
- managerial signs such as strategic value add and behavioural analysis.
- banking signs, which are closely linked to behavioural signs.
- other, not so frivolous, or behavioural signs.

Robinson and Shell UK Ltd (1986:76) and Watson, Hogarth-Scott and Wilson (1998:237) illustrate signs as "indicators" for good performance, thus decline versus success. Lussier and Pfeifer (2001:236), on the other hand, maintain that signs are variables for comparing success versus failure. Scherrer (2003:53) uses a widely accepted approach to discuss warning signs and typifies them as the "internal (controllable) and external (uncontrollable) cause" of decline.

3.6.1 MANAGEMENT EARLY WARNING SIGNS

In a path of organisational decline, Cameron *et al.* (1987:126) chose to call the warning signs "decline attributes". Owing to their very nature as an underlying feature of a path of decline, these elements are occasionally not acknowledged or addressed as warning signs. Ueda (2004:612) argues that if a banks identifies a bad signal it will result in it believing that the entrepreneur is likely to turn out to be unprofitable.

Very prominent in the literature is the identification of "weak", "poor", or "problematic" management as an early warning sign. It is, however, very difficult to measure problematic, weak or poor management. Substantial debate is evident in the literature as attempts are made by various authors to clarify the phenomenon of early warning signs resulting from mismanagement. Ivanova and Gibcus (2003:17) refer to problematic management as "negative behavioural traits". Back (2005:843), on the other hand, refers to early warning signs as the "focus of financial difficulties and behavioural issues", while Carmichael and Stacey (2006:3) focus on "managerial success variables" such as accountability, initiative, boundaryless thinking and integrity. Bates (2005:345) focuses on the "skills set" of owners and managerial "success variables" as warning signs. Some authors, such as Moy and Luk (2003:207), refer to early warning signs as "obstacles" and "problem types" for growth. In their article "The insolvent customer", the Credit Research Foundation (2004:11) reports that in a recent turnaround appointment in Canada, the turnaround team's assessment of the companies' affairs indicated that the main contributor to failure in the company was "poor management".

Miller (1977:44) identifies four "management syndromes" of business failure. They are the impulsive syndrome, stagnant bureaucracy, the headless business and swimming upstream. Hence, when planning a turnaround, the turnaround practitioner thus needs to assess the management style of the entrepreneur. Consequently, it may be deduced that, as there are many definitions and descriptions of early warning signs, a working definition is desirable.

One of the main threats to business viability is management and/or directors who contemplate fraud. In line with this, Bower and Gilson (2003:20) state that fraudulent underreporting of expenses (and other financial performance measures) result in extremely high costs in order to rectify the position. Fraudulent business practices are not limited to misrepresentation but also include statutory non-compliance. Mueller, McKinley, Mone and Barker (2001:25) maintain that, in the process of rationalising the causes of organisational decline, management must form an opinion on the stability of those causes and debate them. This is, however, a constricted, simplistic view of early warning signs.

Singer (1995:325) concludes that "constructs such as poor management, strategy, environment, and industry structure are in themselves inadequate explanations of new venture failure or success". Early warning signs shaped from a focus on the skills set of owners contemplate, according to Lussier (1995a:8), "non-financial business success versus failure variables".

Banfield, Jennings and Beaver (1996:94) focus mainly on the up-skilling of management, addressing need and demand. Three broad management areas that need to be monitored were identified in Grant Thornton's catalyst issues (2004a:1). These are finances, operations and strategic planning. In the broader sense these essential aspects need to be dealt with by the turnaround practitioner and entrepreneur's business and strategic turnaround planning.

Beaver and Jennings (2005:12) describe the management process as a progression which has highly personalised preferences, prejudices, attitudes, skills demand, and technical and educational needs. They also focus on control by the bureaucratic and hierarchical environment over critical decision making. Management plays a significant role in identifying and disclosing early signs of decline. It is, however, clear that when early warning signs begin to appear, the business is already in a sub-normal situation. Gilmore, Carson and O'Donnell (2004:349–357) refer to those situations (where early warning signs appear) as "risky situations".

Some authors suck as, Nutt (2004:13), Franks and Sussman (2005:30), Fraser (2005:448), and Cressy (2006:113), debate fortune as playing a part in the failure of a successful business; this phenomenon is described by Elenkov and Fileva (2006:135) as "bad luck". By contrast, Harvey (2002a:3) concentrates on examining the "value-creating potential of primary activities" as early warning signs.

Pretorius (2008:412) discusses 1) human causes associated with failure in the context of early warning signs; 2) internal and external causes associated with failure; and 3) structural causes associated with failure. These causes relate to the poor execution of business functions, of which Cameron *et al.* (1987:128) have identified various "dysfunctions" of business decline.

These dysfunctional areas include reluctance to change, scapegoating, low morale and conflict. Koellinger *et al.* (2007:520) investigated entrepreneurial behaviour, characterised by overconfidence. This author maintains that identifying distress warning signs in the business in good time is crucial if an attempt is to be made to save the business. Family businesses have their own set of problems, which are grouped in a separate set of early warning sign factors. These are, according to Morris, Williams, Allen and Avila (1997:388), conflict within family circles, centralised decision making and accountability. Sargeant (2005:21) discusses early warning signs as "fundamental turnaround problems" in family businesses.

3.6.2 FINANCIAL WARNING SIGNS

Financing pressures, such as cash flow shortages, necessarily affect the way the entrepreneur deals with the identification of warning signs. Discussing the external funding of a business, Brooks (2002:25) argues that industry investors step back and allow management the freedom to run the business. These types of investor expect management to stick to the (pre-approved) business plan, meet financial objectives and be able to pay dividends. This approach has the potential to force management to ignore some “important dynamics” in the business.

McRann (2005:38) identifies seven short-term key signs that indicate that a business may be in trouble. They are:

- declining sales
- reduced market penetration
- falling profit margins
- thin earnings before income taxes
- high employee turnover rate
- increasing customer complaints
- high-level employee dissatisfaction and defection.

The above-mentioned warning signs, although stated as separate issues, have a severe impact on cash flow liquidity. Platt and Platt (1994:117) conclude that failure is caused by a variety of events, including poor planning during the development phase, a restricted capital base and poor managerial abilities.

3.6.3 BANKING WARNING SIGNS

In a banking environment, lenders, especially as the main transactional banker, will have the added benefit of being in a position to observe banking warning signs. With the enhancement of technology, the entrepreneur has access to his venture’s bank accounts online. If proper risk-monitoring systems are in operation within the business, the entrepreneur, through the risk management system, can be alerted to heed banking warning signs. Banking warning signs are treated by most authors, such as Pousson (1991), Bibeault (1999) and Glantz (2003), as industry specific, with only lenders having a vested interest. A comprehensive literature research of banking early warning signs was done in this study and a summary of the findings is attached as Appendix B.

Bibeault (1992:369) reports on the slowness in the banks' visitation programmes, which in itself is a dysfunction of a bank's own risk monitoring and not an early warning signs as such. Banks tend to have behavioural monitoring and scoring as an early warning sign approach. According to Back (2005:844), this approach is based on historical behaviour and patterns and is mainly used to predict future behaviour. These behaviour patterns include prior payment behaviour, payment delays and payment disturbances.

Glantz (2003:237) proposes a different approach to the behavioural patterns by adopting a more practical approach. He investigates the cash cycles of the business by using the transactional bank account history to establish how effectively cash is managed in the business. Entrepreneurs can use this method to evaluate their own cash cycles and detect warning signs in terms of cash management. Banking warning signs should not, however, be seen in isolation, as they are usually visible in conjunction with other signs.

3.6.4 OTHER EARLY WARNING SIGNS

Holtz-Eakin *et al.* (1994:55) examined the phenomenon of why some individuals survive as entrepreneurs and others do not. The results of their research are consistent with the notion that liquidity or cash flow constraints have a noticeable, if not severe, impact on the viability of an entrepreneurial enterprise and its ability to survive.

Platt and Platt (1994:117) conclude that failure is caused by a variety of events, including poor planning during the development phase. Arogyaswamy, Barker and Yasai-Ardekani (1995:507) are of the opinion that the strategic orientation will be determined and varied by the causes of the business's decline. As Platt and Platt (1994:126) report, some smaller businesses fail as a result of the failure of larger related businesses, for example, in the agricultural industry. According to Singer (1995:313), some entrepreneurs may start their business with some imperfections, such as those related to production.

These imperfections will grow with the business but can unexpectedly surface at a critical point, negatively affecting business performance.

The literature research confirms the views of Okuzumi (1990:62) that designated organisational change is often a cause of business failure. In the rationalisation and change process, psychological pressure is created by organisational decline. Mueller *et al.* (2001:27) believe that entrepreneurs need to accept that they can learn from failure (heed the warning signs). Baunard and Starbuck (2005:283) discovered that learning from repeated success makes future failure very likely; consequently, they focused on small business failures and investigated the power and influence of the entrepreneur.

Kotter (2008:21) refers to the entrepreneur’s position after consecutive periods of success as entering a state of complacency. The entrepreneur’s euphoria at success can be overwhelming. Amburgey, Kelly and Barnett (1993:52) discuss early warning signs as problems in strategy promotion, while Li and Sun (2008:870) focus on financial distress prediction using “case-based reasoning”.
Although case-based reasoning is a new concept, no subsequent reference to it was found in the literature. It was found that decline, distress and failure in the various stages of a business’s life cycle have attracted a lot of attention from researchers.

Comprehensive research was done by Romanelli (1989), Mjaro (1992), Bates (2002), and Burbank (2005), to determine where, at a point in time in their life cycle, businesses are more likely to fail. Pompe and Bilderbeek (2005:867) distinguish between new, “young” and old businesss and conclude that there is no significant difference in the life cycle stage. They qualify their research by highlighting the difficulty in obtaining predictive information from young businesss. Appendix A reflects various authors who identify the specific ‘point’ in the business life cycle where an event occurs that is a contributing factor to decline, distress and failure.

The process of managing constructs such as innovation and change creates a factual challenge in recognising early warning signs through the business life cycle. Strategic association is evident in life cycle theory and growth strategies.

Growth, specifically excessive growth, also referred to as overtrading, can appropriately be described as the silent killer. Concern with low growth is real and evidenced very early in the cycle, but excessive growth is not as comprehensible. Thus, the euphoria of a growing business overshadows strategic planning for sustainable growth.

3.7 SUMMARY OF EARLY WARNING SIGNS

Seminal work on early warning signs has been largely summarised by academics such as Cannon and Edmundson (2005), Collard (2002), Hass and Shepherd (2005), Lohrke *et al.* (2004), McGurr and DeVaney (1998), Moncraz and Kron (1993), Pretorius (2009), Sharma (2001), Sharma and Mahajan (1980), Stead and Smallman (1999) and Tang and Chi (2005).

The logical deduction is that the authors use the following terminology too arbitrarily to apply them to describe "early warning signs":

- success versus failure variables
- causes of decline and or failure
- warning indicators for business decline
- performing and non-performing variables
- root causes for decline or failure
- warning indicators
- material defects
- external and internal factors
- distress variables
- problems
- challenges.

Sudarsanam and Lai (2001:183) suggest "that [the] success of managerial responses to performance decline is conditioned by their timing".

Through managerial and entrepreneurial intervention, business structures can use business turnaround plans to great advantage. Sreenivas (1997:25) identifies business types associated with low and high failure rates. The classification of warning signs made by Pousson (1991) are largely confirmed by this literature study and the case research discussed in chapter 6 of this study. A real-life case research, conducted with a sample of credit specialists in a banking environment, identified various early warning sign categories.

Five main categories were identified by academics in the literature research and are summarised in table format, with the heading "Early warning signs", and attached as Appendix A. Appendix A reflects an analysis of the literature from 1968, when Altman (1968) focused on the modelling of financial ratios in his most famous Z-Score formulae, to date.

Early warning signs identified in the literature are categorised into the following main categories: management, strategic, financial and product/market. Banking signs are not discussed by most authors (refer to Appendix A), as this topic clearly industry specific and favoured by authors researching financial institutions. Owing to their importance, banking signs are reflected separately in Appendix B.

3.8 INTRODUCTION OF VERIFIER DETERMINANTS

The importance of analysing the early warning signs of business failure in their entirety is thus essential when a turnaround is proposed. It is a well-established fact that warning signs are generally ignored when the business is still a going concern. Ex post facto investigations into the causes of failure and decline are most prominent in the postmortem phase of business assessment. The academic debates clearly failed to "drill down" into the micro warnings and were mostly content to stop at the macro identification of warning signs. This leads to vague and open-ended descriptions such as, among others, 'poor', 'weak', 'dysfunctional' 'unsuccessful' and 'unfocused' management.

The same argument applies in the case of strategy, product, market and financial factors. In a financially distressed turnaround situation macro warning signs are easily observable; it is the micro warning signs that have to be verified by the turnaround practitioner.

Improved reliability can be obtained by building early warning verifier determinants into the strategic business plan to 'verify' warning signs, possibly through a regular update, to ensure appropriate corrective action. Observations may contribute by condensing the timeline during which early warning signs are identified. As this research and thesis focus mainly on the early warning signs, their causes and the identification of verifier determinants initiating the causes, previous theory is listed according to the timelines and early warning signs identified. For a full schedule of the timeline approach and early warning sign methods used, refer to the schedule attached as Appendix A. A conclusion can be drawn that the causes of decline and/or failure are clearly identified and well researched.

The words 'verifier' and 'determinant' are combined in the term 'verifier determinant'. These words are subsequently subjected to investigation with regards to meaning, denotation and common understanding. In order to formulate a definition, this study considered and analysed the elements of the term 'verifier determinant' by applying a synonym approach to each element.

The lists of synonyms in figure 3.4 stimulates the thought process, but also allows the reader to form a comprehensive understanding of the constructs of 'verifier' and 'determinant'. The term 'verifier determinant' is most probably better described by the French words *confirmer déterminant*. The meaning of verifier is to confirm, validate and make sure that the early warning sign identified is in fact present. Determinants reflect the agreement or consensus of the warning sign verifier.

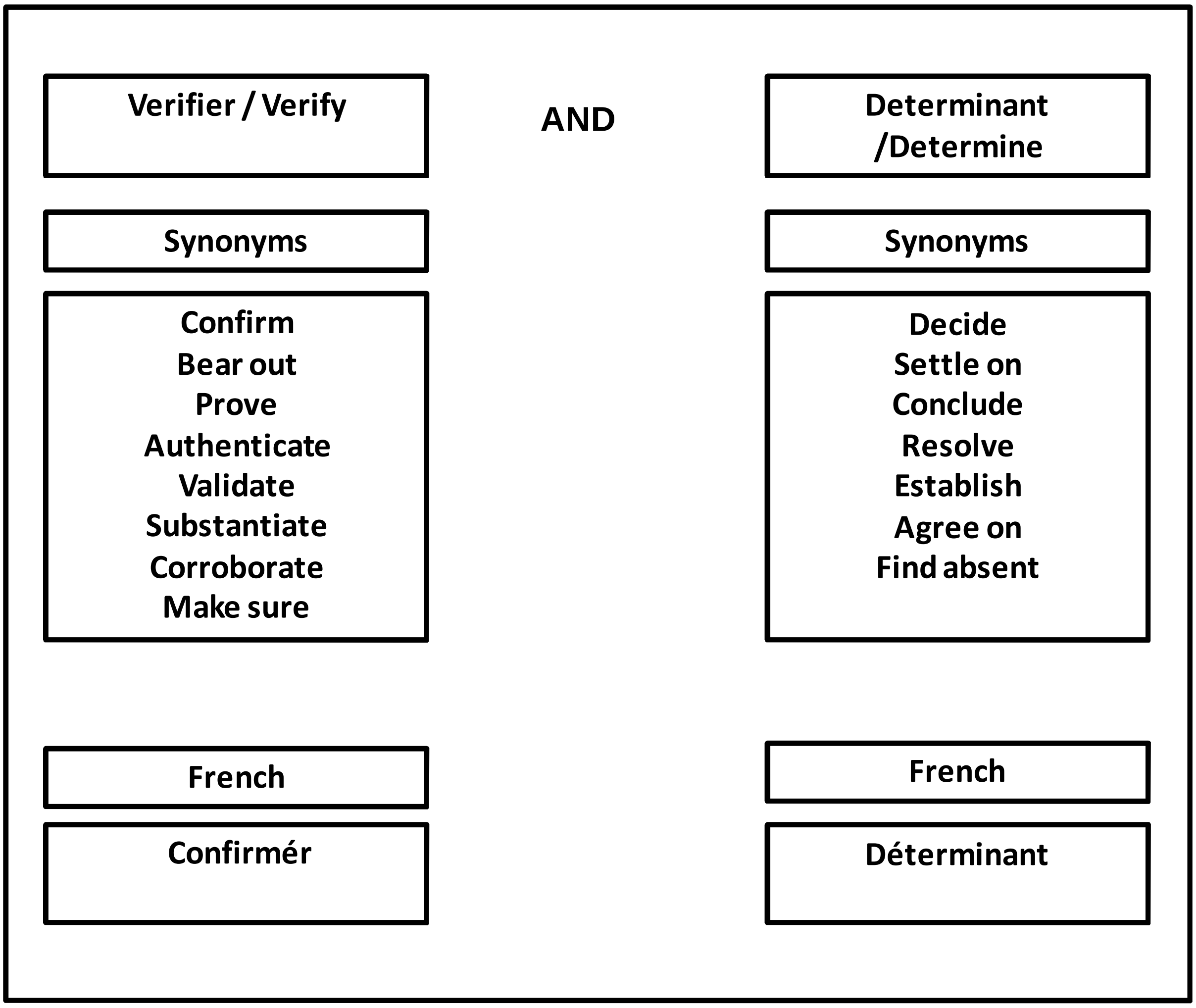

Figure 3.4 Synonyms of verifier and determinant

A verifier determinant is defined as the ‘root’ indicator that validates the cause, which underscores/concludes the early warning sign (see figure 3.5). In chapter 1, ‘early warning sign’ was identified as a construct and ‘verifier determinants’ as the elements of this study.

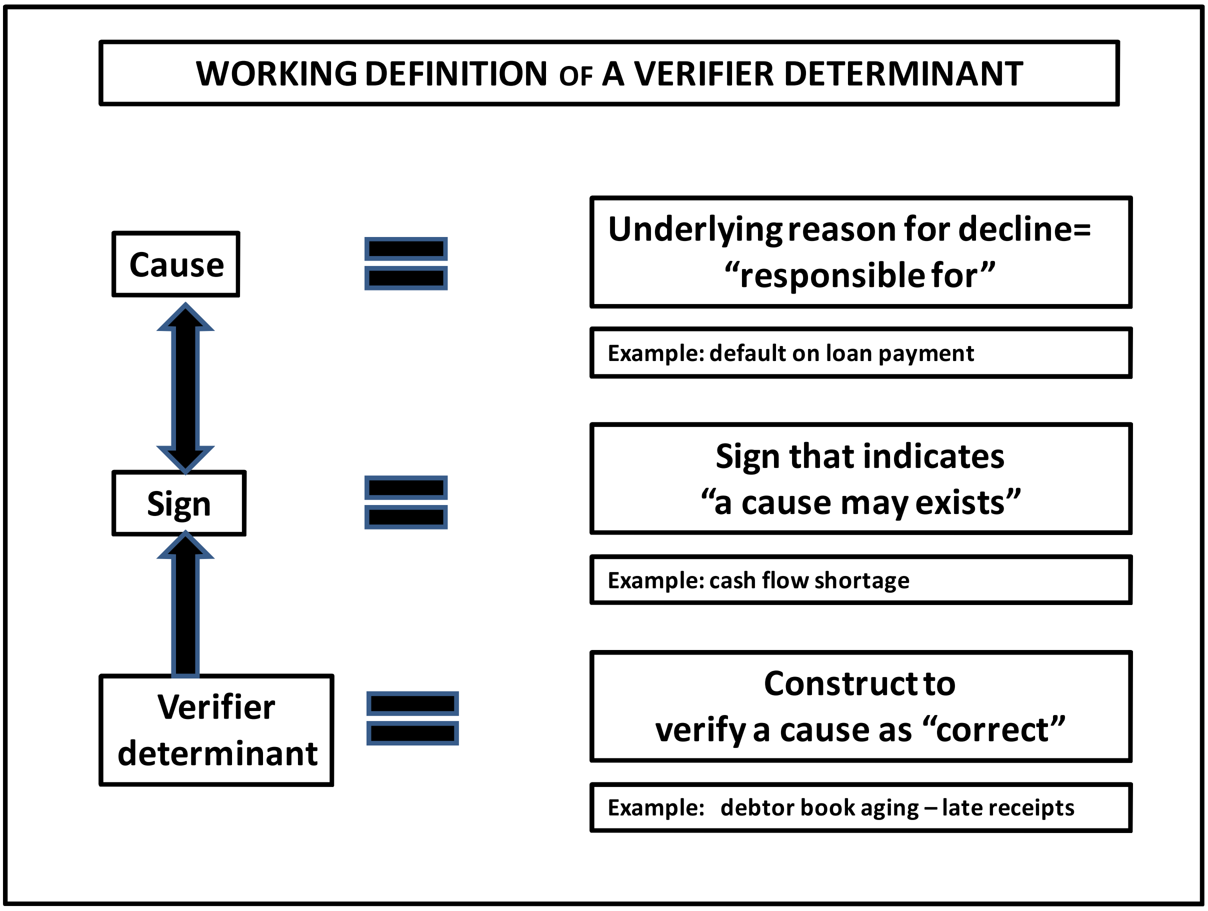

Figure 3.5 Working definition schema for verifier determinant

It is of great importance to establish the true value of the business in the early stages of the turnaround process. Verifiers can be used successfully to determine the extent of the problem ('depth of the rot'), the difficulties concerned and the severity of the problem. When verifiers are used, the time constraints inherent in a turnaround situation can be alleviated by assisting to assess the real situation quickly. Verifiers will lead to a better understanding of the cause of decline or distress and will be beneficial to managers/owners and personnel in coping with the psychological effects. If identified correctly, verifiers will be the key variable when deciding if a turnaround is feasible or not.

Owing to a better understanding of the business through the identified verifiers, the ultimate cost determination of a turnaround could be accomplished in a relatively short period.

The most important part verifiers need to play is to prevent decline and distress in businesses. Used as a longevity based management tool, verifier determinants can contribute to the day-to-day management of a business.

Verifier determinants and the sequence of events
When a business starts to decline in performance, early warning signs change from being invisible to becoming visible, because of their mostly qualitative nature. The application of verifier determinants is used to confirm the veracity of the early warning signs – at the same time reducing the period of the turnaround and its effect on the decline. Later, the verifier determinants can inform the turnaround plan.

3.9 CONCLUSION

Recent research serves to reiterate, consolidate and summarise the seminal work of earlier authors, such as Altman (1968), Argenti (1969; 1978; 1997), Miller (1977), Al-Bazzaz and Grinyer, (1980) Mayes and McKierman (1980), Hamer (1983), Anderson and Zaithaml (1984), Cameron *et al.* (1987) and various others (see Appendix A). Once a variable has been identified as an 'early warning sign', it is not subject to change. The variables were, however, subjected to name changes, as the authors attempted to put a unique or personal touch on them.

The only unpredictable constituent of early warning signs is how management respond to the appearance of the sign. In assessing the academic debate on early warning signs, it becomes evident that authors use various terminologies and descriptive writing to explain the causes of business decline and/or failure.

This chapter suggested a working definition, of a verifier determinant, in this study, which is derived at by using the same approach used to arrive at a definition for early warning signs.

CHAPTER 4

Theoretical development on turnaround management

CHAPTER 4
THEORETICAL DEVELOPMENT ON TURNAROUND MANAGEMENT

"Turnarounds are superb management schools. Everything needs fixing. Nothing is sure except the need to recover. The learning experience is intense. Never again will the turnaround leader assume that customers always buy, vendors always ship, bankers always lend."

Whitney (1987:49)

"What is the difference between running a business well under normal conditions and doing a turnaround?"
"Turnarounds differ from managing a company well by the compression of time and the scarcity of resources – there is no time and scarce human and financial resources."

McCann, Dermer, Hunter, MacDiarmid, Morgan, Örndahl, Robson and Wagman (2009:7)

4.1 INTRODUCTION

This chapter discusses the theoretical development of turnaround theory and philosophy, and the subsequent modelling of turnaround processes. A comprehensive literature review was undertaken and is summarised in a table attached as Appendix B. The research identified certain behavioural trends, which were used to compile a new strategic turnaround framework (see figure 8.1). The formation and development of the learning discipline Business Turnaround considered in a South African context is still in its infancy.

By comparison with the United States of America, South African literature on the subject of business turnaround is, to say the least, scarce. As the business rescue principle is incorporated into company legislation, it is hardly surprising that most of the early research and comments vest in the legal fraternity. With the limited number of "turnaround" students and academia currently involved in the formal study of this discipline, the body of knowledge is not expanding rapidly enough. A unique source of information and literature on turnaround is to be found on internet websites, in publications such as turnaround practitioner notes, and auditing and legal business's circulars and publications.

As a result, the national and international Turnaround Managers Association websites were used to great effect in this research in addition to the academic literature (see Appendixes A and B).

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Owing to the diverse sources of literature available, categorising secondary data sources in the different key sources was considered and subsequently deemed prudent as a departure point. In addition, the various practices and models that are available in the business environment and that will assist with the compilation of a South African entrepreneurial approach to rescue/turnaround, were researched.

The most salient strategies, steps and processes for rescue/turnaround are highlighted in this chapter. This chapter concentrates on the Turnaround section of the turnaround process flow as indicated by figure 3.1. The determining of the 'true' value of a business in a decline and/or distress situation is of the utmost importance. The value, the method used to determine the value, and the final foundation on which the value is based determine the future of the business. Moreover, a valuation will assist in answering the following questions: how, why and when do you exit a business or, how, why and when do you proceed with a turnaround initiative?

Once the decision is made in favour of contemplating a turnaround, the planning phase will commence by applying grounded theory and turnaround methodology. The salient business turnaround model that has evolved over time is discussed in this chapter.

The work of Hofer (1980), Bibeault (1982), Hambrick and Schecter (1983), O'Neill (1986), Boyle and Desai (1991), Robbins and Pearce (1992), Fredenberger and Bonnici (1994), Arogyaswamy *et al.* (1995), Sudaranam and Lai (2001), Lohrke *et al.* (2004) and, finally, Sheppard and Chowdhury (2005) is incorporated and illustrated in table 4.1.

4.2 BUSINESS TURNAROUND

The turnaround concept is not new to business. The term “turnaround” needs to be clarified as various applications exist; for example, in the United States of America, the shut-down and repair and maintenance of manufacturing plants are also referred to as turnarounds. (This study is concerned with business turnaround). A business turnaround event is triggered by deterioration in the performance (profits, financial difficulties) of a business, resulting in a business turnaround situation.

The term “turnaround” is used in various scenarios and is applied to numerous situations resulting in different outcomes. Section 1.7 contains a list of the terms used interchangeably in this study.

The word turnaround is used interchangeably with rescue, realignment, restructure, reorganisation and renewal. Some authors such as Mueller, *et al.* (2001), and Lohrke, *et al.* (2004), also use downsizing in discussions on turnaround. Although downsizing can be a response to decline in a business, downsizing is not always linked to decline. Freeman and Cameron (1993:13) state that downsizing and decline are two distinct constructs. They agree that a business can strategically downsize without experiencing decline. This study will, for the sake of consistency, refer to all these concepts as “turnaround”. In chapter 3, this study dealt conducted a secondary data analysis and the differing concepts were closely investigated and a clear distinction was drawn.

To illustrate the flow of the research process, figure 3.1 represents the steps in a turnaround situation from the time a turnaround event first occurs. A turnaround event is prompted by a condition of decline and/or distress within a business. Accordingly, an early warning sign, or most likely a combination of early warning signs, will be evident. The next step is to verify the warning signs in order to establish the true value, asset value or liquidation value of the business. The decision outcome will then determine whether a turnaround will be attempted. If it is decided to commence with a turnaround, a turnaround plan will be drawn up which, if accepted, will lead to the final steps depicted in the last column.

The relevant literature (As per Appendix C), indicates that very few sources on the subject of turnaround exist in the South African context. A local source of practitioner literature and industry information is the South African Turnaround Practitioners Association website, where South African turnaround practitioners publish industry-related articles. The industry is currently unregulated and, as such, these articles are unfortunately in some instances flawed by plagiarism, unsubstantiated data and untested assumptions, and are often not based on scientific principles. Turnaround planners, entrepreneurs and practitioners alike must be able to plan to re-enter markets at an opportune time. Financial distress unfortunately has a negative effect on suppliers and customers and the challenge is re-entry into the markets.

A turnaround practitioner's short-term strategy is to ensure immediate corrective measures and a short-term turnaround plan that will be managed on a project basis. Longman and Mullins (2004:58) are of the opinion that effective project management requires "the right people and skills". This statement emphasises the need for suitable experience and the appropriate academic background in a turnaround practitioner. Muir (2005:3) warns about the high cost involved in turnaround structuring.

A business can only embark on a turnaround attempt when the question: "Is the business worth saving", is confirmed in the positive. These are, in a very broad sense, the essential aspects that need to be addressed by the turnaround practitioner and the entrepreneur's strategic turnaround planning. Bowman, Singh, Useem and Bhadury (1999:49) attempted measuring these "models" but concluded that the negative performance effects of turnaround are the transfer of wealth, rather than value creation. The investigation into the literature suggests that there are various causes for business distress.

Consensus seems to propose that poor cash flow management and control is the single most common financial cause of initial distress and subsequent failure. However, company size does play a role, as Pant (1991:639) concludes that it is, in the short term, easier to improve the results of smaller rather than larger companies.

Current South African legislation does not allow the debtor (entrepreneur) any input into the insolvency/judicial management process. In this respect, it is worth noting that the Canadian Bankruptcy and Insolvency Act (Section 50.4(8) 1992) allows for a stay of (moratorium on) proceedings, which, in turn, allows the insolvent party to apply to the courts for a stay or extension for the duration of the moratorium.

Grant Thornton Catalyst Issues (2004b) states that Chapter 11 of the United States of America's insolvency law provides for a similar debtor-friendly approach, where the courts appoint a trustee to draft a plan for the reorganisation/restructure of the business (USC Bankruptcy Chapter 11, section 1104). In the case of the United States of America, the appointment of a trustee is obligatory for all public companies. The focus, however, is on the fact the trustee must develop a plan that is specifically designed to reorganise the business.

The investigation looked at numerous turnaround avenues that are available to the entrepreneur. When applicable to the research objective, these avenues were applied to a unique turnaround model in order to achieve turnaround in the current South African business environment. A turnaround is deemed viable only if it reflects the potential for creditable, sustainable recovery.

Zopounidis and Doumpos (2002:371) suggest that, when attempting to solve business problems, the alternative should be weighed up carefully. In this vein, Whitney (1987:49) argues that, with a turnaround attempt, nothing is certain except the need to recover. Thus, turnaround attempts are, without doubt, faced with different alternatives and it is up to the planners to discriminate effectively between the various options. In a study on airlines in distress by Gudmundsson (2004:462), it was established that distressed airlines pursued "market power" tactics. Market power approaches inevitably lead to overtrading. In contrast, the author found that non-distressed airlines have productivity and greater performance as their strategic focus. The Grant Thornton Catalyst Issues (2004a:1) is of the opinion that the entrepreneur needs to be aware of the following four key stages in steering a troubled business to safety:

- stabilising the distressed situation by introducing vigorous cash flow management (reducing cash losses and increasing cash flow)
- analysing and revisiting the business and/or strategic plan to determine new directions and action in meeting business objectives
- financial restructuring to reposition a business in line with new objectives
- organisational restructuring to strengthen the business.

The UNCITRAL guide points out that, if the business can be saved, creditors will receive maximum value and job losses will be minimal. The aspect of job creation in South Africa is a very politically sensitive and broadly discussed topic. Accordingly, a rescue/turnaround supportive legislative strategy could address the issue of job retention. Although South Africa's insolvency legislation clearly favours a culture of creditor-friendly regimes, it would seem that debtor-friendly approaches are not necessarily afforded proper consideration by all role players and stakeholders. Burdette (2004b:11) consequently concludes that "there appears to be general consensus that South Africa needs, and wants, a modern and effective business rescue model".

Business, government and academics all seem to agree that the present South African judicial management system, particularly as a business rescue system, has to a large extent failed. In the recent past, government, represented by the Departments of Justice and Trade and Industry, has made various attempts through various appointed committees to design a business rescue model. (Committees such as these would, *inter alia*, include the Centre for Advanced Corporate and Insolvency Law [hereafter CACIL] at the University of Pretoria.) Winer, Levenstein and Gewer (2005:3) argue that companies need to develop systems of internal control and risk management, as these systems will result in more efficient reaction times when financial distress signals begin to appear. The need for entrepreneurs to have a creative input into the preparation of a workable business rescue and redesign model, and to design a comprehensive and acceptable business rescue plan, is fundamentally important.

Informal agreements or arrangements which, in turn, can lead to the implementation of formal insolvency proceedings by such creditors accentuates the need for a change in current legislation that would allow such entrepreneurs adequate leeway to design proper rescue plans. In the South African context, Chapter 6 of the new Companies Act dictates that the business rescue or turnaround as an intervention is of a “temporary nature”. The Act is clear that a turnaround should be completed in a period of six months. This infers that the business will have returned to normal after six months. Hofer and Schendel (1978:73) opine that the return to “normality” is the final stage in the turnaround process. The normality stage is commented on later in this chapter.

The United States of America and Canada seem to be at the forefront of turnaround legislation and models. In the United States of America, the well-known Chapter 11 proceedings are often debated and reported in the literature. The short-term aim of turnaround will be to manage the distressed business out of commercial insolvency and the longer-term aim will be to sustain technical solvency. Chapter 6 of the new Companies Act dictates a framework as explained in table 5.1 in chapter 5 of this study. The salient issues, as per the Act, were discussed under the various turnaround stages indentified. In this chapter reference will be made to the applicable sections of Chapter 6 of the new Companies Act.

4.3 DEFINITION OF BUSINESS TURNAROUND

Turnaround management has evolved over a period of time, from a trial-and-error scenario to an important management science. As such, the definition of a turnaround has also been open to various debates and compositions. Eventually, a definition evolved and some authors added to the definition. However, as research theory developed, and legislation became more debtor friendly, the definition has seen various changes in order to adapt to the new findings and legislation. Some researchers, such as Thorne (2000:305), who place turnaround action on the same podium as business transformation, amplify the importance of business turnaround. Moreover, the importance of decision making during a turnaround event should not be taken frivolously by management.

The importance of turnaround decision making under risk, is confirmed by Tversky and Kahneman (1974:1128; 1986:260) and Kahneman and Tversky (1979:264), who warn that decision makers follow a simple heuristic rule of thumb when making decisions under risk and uncertainty. It has been found that a relatively complex probabilistic approach is required under conditions of high risk, as decision makers tend to ignore the signals that clearly indicate the variables that should be considered when forced to make decisions. Ansoff (1975:22) describes the ignorance of weak signals by the entrepreneur as missing an opportunity or exposure to a threat. The instant realisation that dawn on the entrepreneur is labelled by Ansoff as the "moment of truth". At this point neither the cause nor the response is comprehensible by the entrepreneur. In practice, this moment of truth refers to the "turnaround event". A turnaround removes the entrepreneur (directors and/or management) from their comfort zone and places them in unknown territory.

Bibeault (1982:1) describes a turnaround situation as an abnormal period in any company's history. Turnaround situations require management approaches unique and distinctly different from those of stable or growth management. Consequently, old management tenets lose their validity. In reviewing related academic and practitioner literature to find common ground on the definition of business turnaround, the close association between business failure prediction and business rescue was evident. Figure 3.1 illustrates this association as a flow process, from early warning sign identification and verification as the departure point, to acceptance of decline/distress, to a turnaround response as the final stage.

Filatotchev and Toms (2006:408) state that the conditions responsible for the financial downturn (identifying and verifying the early warning signs) will have to be mitigated to achieve stability in the business. According to Pretorius (2006:6), turnaround will allow business to achieve acceptable performance and emphasise the importance of identifying signs. Sudarsanam and Lai (2001:183) argue that the downward trend towards failure in business is attributable to poor implementation of turnaround strategies. McRann (2005:38) points out that there are natural ebbs and flows that are part of every business; thus it is not always clear if your business is going to hit a significant bump or if you need a major change in strategy.

Simons (1999:85) maintains that it is in the good times that managers/entrepreneurs need to be more vigilant in identifying signs of impending danger. Simons (1999:86) concludes that "in dynamic markets, taking risks is an integral part of any successful strategy". Entrepreneurs need to understand the conditions that create unacceptable levels of risk.

In the research of preceding definitions on turnaround a number of interesting approaches were observed. Transformation is positioned on the level of turnaround by Levy and Merry (1986, in Thorne, 2000:305), who state that "transformation is the response to the notion that the organization cannot continue functioning as before … in order to continue to exist it needs a drastic reshuffling in every dimension of its existence". Ramakrishnan and Shah (1989:26) support the view that turnaround management "refers to a gamut of operations from identification of a problem to developing the plan needed to ameliorate them echo the turnaround process flow designed by this research". The most popular approach in defining turnaround is the restoration of performance and success. Thain and Goldthorpe (1989:55) thus define a turnaround as "the reversal of performance from decline and failure to recovery and success".

In the process of reversal of decline and failure, the turnaround management will execute various action steps. Boyle and Desai (1991:33), describe turnaround management actions as a process that involves the "establishing of accountability, conduction diagnostic analysis, setting up an information system, preparing action plans, taking action and evaluating results". Confirming this approach, Robbins and Pearce (1992:296) argue that a turnaround response consists of activities likely to overcome the business's troubles and return it to match or exceed prior performance.

Balgobin and Pandit (2001:301) define a corporate turnaround "as simply the recovery of a business's economic performance following an existence-threatening decline". The phrase used, "decline that threatens its existence", implies a distressed situation which fuels the perception that turnaround is only associated with business in distress.

The research results clearly indicate that turnaround is not only limited to distressed situations in business, but that the concept of turnaround incorporates various elements such as downsizing and restructuring. Although downsizing can be a response to decline in a business, downsizing is not always linked to decline. Freeman and Cameron (1993:13) state that downsizing and decline are two distinct constructs. They agree that a business can strategically downsize without experiencing decline. In an expanded model of the turnaround process, Lohrke *et al.* (2004:65) identify a three-phased process:

- turnaround situation
- turnaround response
- turnaround outcome

Sheppard and Chowdhury (2005:243) state that "a turnaround occurs when businesss persevere through an existence-threatening performance decline and end the threat with a combination of strategies involving skills, systems and capabilities to achieve sustainable performance recovery". A popular view regarding financial distress is that expressed by Chathoth, Tse and Olsen (2006:604), who define a turnaround as the "action taken to prevent the occurrence of financial disaster", for which the results are measured over a period of time.

A very recent definition which has substantial appeal was formulated by McCann *et al.* (2009:7). They describe a turnaround as a "process to restore a failing company to sustainable competitive vitality". The centre point of all the definitions seems to be the reversal, restoration and recovery of former glory. McCann *et al.'*s definition has a more realistic approach in that its aim is to restore the business to a sustainable competitive vitality. This implies that the business can be downsized, restructured and aligned to form an economically viable enterprise, and not necessarily restore performance to previous levels. This is a very important observation, as until now the return to "normal" had not been clearly defined in any previous attempts. Clearly this opens up a new construct in turnaround management, namely "sustainable competitive viability".

Carapeto (2005:743) states that “a business reorganizes successfully when it emerges from bankruptcy with either independence preserved, or else is acquired or merged”. In contrast to the independence view, Pretorius (2008b:20) defines a business that has been turned around as a recovery “from a decline that threatened its existence to resume normal operations and achieve performance acceptable to its stakeholders (constituents), through reorientation of positioning, strategy, structure, control systems and power distribution”, again supporting normal operations.

The recovery process is not well defined, but Ketelhöhn, Jarillo and Kubes (1991:117) consider a turnaround as being successful “if after the period of losses, management could sustain at least two consecutive years of profit”. This equation, however, fails to define the level of profit and the question remains. Various authors such as Knot and Posen(2005), and Pearce and Robbins (2008), have discussed the probability of mergers and acquisitions as a mechanism to turn a business around. For that purpose some salient literature on the subject was included in the main body of research. Castrogiovanni and Bruton (2000:27) quote Schendel, Patton and Riggs (1975), who define a successful turnaround as the “reversal of a business’s pattern of performance decline”. The UNCITRAL Guide (2005:7) defines business turnaround, or reorganisation as the process “by which the financial well-being and viability of a debtor’s business can be restored and the business continues to operate, using various means possible including debt forgiveness, debt rescheduling, debt-equity conversions and sale of the business (or part of it) as a going concern”.

Chapter 6 of the new Companies Act closely follows the UNCITRAL Guide by defining business rescue or turnaround in **Section 128(1)(b)** as "‘business rescue’ means proceedings to facilitate the rehabilitation of a company that is financially distressed by providing for-- the temporary supervision of the company, and of the management of its affairs, business and property …”; and, "… rescuing the company" means achieving the goals set out in the definition of ‘business rescue’ in section (b)”.In this section of the Act "supervision" means the oversight imposed on a company during its business rescue proceedings and “temporary” is submitted to be a period of six months.

In light of the entrepreneur's high propensity to risk discussed in chapter 2, this study theoretically defined and proposed early warning verifier determinants in modelling a turnaround plan. The author of a turnaround plan has to introduce creativity into the strategic turnaround plan to overcome this bias.

Majaro (1992:230) compiled a creativity checklist to ensure that strategic planning includes creativity and innovation. Concepts such as the removal of barriers, communication procedures and motivational stimuli will be further researched and it is planned to include these concepts in the modelling of the turnaround plan. Von Oetinger (2004:37) argues that innovation and creativity is "escaping from your existing model". Clearly, if the existing strategic business model leads to distress, "escaping" from it is essential for survival. Furthermore, Merrifield (1993:384) argues that central to the successful execution of a turnaround plan is the creation of entrepreneurial initiatives.

Turnaround planning parameters should be officially researched but, as indicated, will not follow the same conventional business planning structure, as the end goal will be to return the business to commercial viability. Thus, changing the existing (failing) strategic model is unavoidable. Owing to the historic non-reliance on and negative perceptions of traditional business plans, a new creative approach to compiling turnaround plans, that is, business strategising, was attempted to create a functional framework for use by entrepreneurs and turnaround practitioners in South Africa.

4.4 STRATEGIC VERSUS TURNAROUND STRATEGY

Porter (1979:137), who shaped the future of strategic management when he introduced his five forces into the field of strategy research, did salient work on strategic management. Later, Porter (2008:8) enhanced his five forces theory by adding certain factors to the five forces.

By introducing these factors for consideration, Porter qualifies some of the forces such as “growth”, on which he now cautions the strategist. He states that “a narrow focus on growth is one of the major causes of bad strategy decisions”.

Hedley (1976:10) ponders the complexity of the development and understanding of strategic segmentation. It is concluded that the basis for strategic segmentation usually involves a detailed assessment of “cast and value addition” in the business. It is imperative that the segmentation of the business takes into account the life cycle stage of the business.

Nag, Hambrick and Chen (2007:952) conclude that strategic management “acts as an intellectual brokering entity, which thrives by enabling the simultaneous pursuit of multiple research orientations by members who hail from a wide variety of disciplinary and philosophical regimes”. In this context, Ketelhöhn (1995:74) discusses the re-engineering of management strategies as processes emanating from a “trial and error” continuum progression.

Oosthuizen (2009:14) debates the applicability of the traditional strategic positioning approach and argues that no real need exists to discard the conventional strategic planning approaches. This is contrary to Riana, Chanda and Metha’s (2003:83) approach that the turnaround practitioner “unfolds” the turnaround strategy “step by step” as the need arises to meet (short-term) objectives. The speed with which turnaround strategies are formulated is confirmed by Mueller and Barker III (1997:119), who argue that turnaround businesss develop decision-making strategies that are “fast”.

They also conclude that these strategies, although swift, are influenced by external perspectives. This view (influenced by external perspectives) is contradictory to the agency theory approach which Eisenhardt (1989a:70) propagated against outside intervention. If the agency theory is followed, the responsibility and accountability for strategic decision making will rest with the turnaround practitioner alone. What is critical in this stage of the turnaround is, according to Eisenhardt (1989a:60), to acknowledge the principles of agency theory in designing the optimal contract.

The complexity of a turnaround attempt is clarified by Zimmerman (1986:109) who is clear that “in order for a company to turnaround, many things have to be done, and, they have to be done together”. Chrisman, Hofer and Boulton (1988:413) state that researchers have developed standard strategy classification schemes to address extraordinary circumstances such as a business turnaround. The success of this methodology is questioned as it is clear that a unique set of preconditions dictates a specialised approach to turnaround. In confirmation, Chrisman *et al.* (1988:413) conclude that an optimal strategic solution was, however, not achieved using the standard strategy classification, as a turnaround event necessitates a unique solution and strategic approach. The deduction here is that the turnaround practitioner will have to establish a team of professionals to assist in the turnaround execution.

Owing to the very tight timelines imposed on a turnaround event, it is also indicated, or suggested, that a team approach is advisable. McCann *et al*. (2009:7) describe the difference between normal business conditions and turnaround conditions as follows: “… turnaround differs from managing a company well by the compression of time and the scarcity resources, … there is no time and scarce human and financial resources”. Hofer (1980:20) made a huge contribution in his time when he distinguished between strategic turnarounds and operational turnarounds. Although he discusses strategic and operational as two separate constructs, in strategising the turnaround plan both constructs will form part of the strategic planning phase. Sudarsanam and Lai (2001:183) distinguish between managerial, operational, asset and financial restructuring.

These constructs were further analysed and dissected as Sudarsanam and Lai’s research sample of turnaround businesses did not distinguish between informal and/or formal Chapter 11 (United States Legislation) turnarounds. If the turnaround were differentiated between the variables, it would have added valuable insights into the understanding of formal versus informal turnarounds. Whichever causes for decline and distress are identified, the turnaround solution decided on is of the utmost importance, as poor implementation of a turnaround plan can lead to further decline, with dire consequences.

Three modes of restructuring are identified by Bowman *et al.* (1999:34): portfolio, financial and organisational restructuring. Lieberman and Montgomery (1988:48) argue that customer needs are very dynamic and opportunities are created through “first mover advantages”. The same early mover principle applies to the opportunity which is created for the management to turn a distressed business around. Joachim and Wilcox (2000:15) conclude that, if the business owner is a strategic opportunist and a fast mover, the business can survive. Chowdhury and Lang (1993:9) discuss the vulnerability of businesses toward gradual decline when discussing the theory of business turnaround. Hedley (1976:3) argues that “changes in the environment have brought the (strategic) requirements into sharper focus, made the constraints more severe”.

In conclusion, it can be deduced that, in a turnaround scenario, strategic modelling will definitely differ from traditional strategic formulation, as strategic decisions have to be made in a very short time.

Owing to the turnaround event, business decision making is far more situational and complex than in normal situations. As a result of limited, and therefore untested, data, the decisions made in a business turnaround are the best fit for the current situation. Riana *et al.* (2003:89) confirm this approach; they conclude that “turnaround managers ask for and frequently get total authority from the board to take quick decisions. As a result they often shoot from the hip with little time spent on collecting and analysing data and arriving at conclusions after careful consultations that good business demands”.

A question that is on every creditor’s agenda is: What is the duration of business rescue proceedings? Section 132(1) of the new Companies Act, is very clear as to when a rescue begins and when it ends:

> … *business rescue proceedings begin when the company files a resolution to place itself under supervision in terms of section 129(3); or applies to the court for consent to file a resolution in terms of section 129(5)(1);*

a person applies to the court for an order placing the company under 45 supervision in terms of section 131(1);

or during the course of liquidation proceedings, or proceedings to enforce a security interest, a court makes an order placing the company under supervision…"

Section 132(2) makes the inference that the rescue proceedings will end with the introduction of a notice that the plan has been substantially implemented. In practice, the turnaround can take a lot longer and the intention of the legislature will have to be subjected to a ruling by the court. Heller (1994:66), reporting on the turnaround in Compaq, the computer manufacturer and supplier, stresses that it took the new chief executive officer, Eckhard Pfeiffer, only two weeks to redesign Compaq "from top to bottom". Heller further states that Pfeiffer's aim was a long-term successful solution. Brenneman (1998:164) describes the most difficult part of a turnaround as "getting all (everything) done fast, right away and all at once".

Banks, as primary lenders to a business, play a large role when formulating a business turnaround strategy. When banks are in a well-secured position, they will, and can, close down the business if a turnaround plan is not compiled and presented to them very quickly and to their satisfaction. According to Brown (2005:60), banks need to see a clear directional focus in order to assess and approve debt restructuring in a business turnaround situation.

There seems to be frequent and lively debate on the duration of a business turnaround. Ketelhöhn *et al.* (1991:117) argue that the turnaround period could last up to four years. They do, however, add the period of decline as the first year of the turnaround process.

Ketelhöhn *et al.* (1991:117) describe these years as

- the first year of losses prompting the turnaround decision
- the second year as the breakeven year

- the third year is for profits and confirmation of recovering profits
- the final year – year four is the year for consolidation and proof of sustainability.

Kow (2004b:281) supports the view that the turnaround of a business is not a "quick fix" scenario and that it will take a lot of hard work over an extended period of time. The protracted period results because the turnaround practitioner, in his endeavours to cut costs and improve mobility, always changes the business structure. A shorter business turnaround term is discussed by Whitney (1987:49), who argues that the turnaround practitioner does not have the "luxury of abundant time and resources". The amount of time required for a turnaround is of interest both for its practical significance and for developing a research design.

None of the previous business turnaround researchers have stressed the sequential aspects of their findings, but some patterns are evident. In studying business turnaround, it was concluded by Hambrick (1983:235) and Friedenberger, Thomas and Ray (1993:327) that a typical fundamental turnaround classification will be financial, operational and strategic. They identify three stages of recovery:

- crisis
- stabilisation
- return-to-normal growth
    - content of strategy
    - process of turnaround.

Entrepreneurs often fail to take effective action to stop the decline owing to the fact that they do not want to acknowledge the deterioration in their business.

Failure to identify the decline will lead to omission of the very first stage of a business turnaround. Ramakrishnan and Shah (1989:26) describe turnaround management as a range of operations "from the identification of the problem to developing the plans needed to ameliorate it".

Balgobin and Pandit (2001:304) ponder on the fact that in successful turnarounds the incoming turnaround management and/or practitioner formulates a strategic recovery plan in a very short time span. These time constraints propose an identification process that addresses the real issues in a turnaround event as soon as possible.

Theriot, Roopchand, Stigter and Bond (2000:2) promulgate the use of Monte Carlo simulation owing to its ability to address elements under situations of uncertainty and variability. They list the following reasons for their argument:

- accuracy unequalled by analytical models
- explicit treatment of variability and uncertainty
- support for changes of key parameters over time
- explicit consideration of interaction and coupling
- flexibility in accommodating case-specific rules and constraints.

Owing to the specialised nature of the model, the actual duration of conducting a simulation is nowhere debated, or commented on in the literature but it is perceived to be time consuming.

4.5 DEVELOPMENT OF TURNAROUND STRATEGIES

4.5.1 INTRODUCTION

A whole host of turnaround models, strategies, steps, actions and process flows are described in an attempt to design the ultimate turnaround framework. As such, the works by various authors, such as listed in table 4.1, can be regarded as salient contributions to turnaround research. In table 4.1, the authors included in this discussion are contrasted using a shaded area.

As a result of a multitude of descriptive tables and figures, this research has only concentrated on those models that can add value (although the others are no less important) and these are indicated by background shading in the last column.

Table 4.1 The evolution of turnaround modelling, strategic thinking and theory

The Evolution of Turnaround modelling, strategic thinking and theory			
Author	**Date**	**Contribution**	**Turnaround model**
Carrington, J.H. and Aurelio, J.M.	1976	Careful planning and open relationship with stakeholders. Cost cutting and creditor concessions	
Hofer, C.W.	1980	The relationship between severity of decline and appropriate recovery actions Indentify four "gestalds"	Cost Reduction Activities Revenue Increasing Activities Market/product Refocusing Activities Asset Reduction Activities Moves to breakeven point
Bibeault, D.B.	1982	Identification of four key success factors for turnaround success	New, competent management Viable core operation Adequate bridge financing improved employee motivation
Hambrick, D.C and Schecter, S . M	1983	Identification of three "gestalds"	Asset and Cost Surgery Selective market/product pruning Piecemeal productivity
O'Neill, H.M.	1986	Identification of sub-strategies for turnaround	
Zimmerman, F.M.	1989	Identification of successful turnaround	Relating to the nature and severity of economic difficulties Relating to being a low cost producer Relating to the differentiation of products Relating to leadership and the turnaround organization.
Boyle, R.D. and Desai, H.B.	1991	Introduce four cell approach to generic turnaround	Internal External Administrative Strategic
Castrogiovanni, G.J., Baliga, B.R. and Kidwell, R.E.	1992	Concentrate on management change	
Robbins, D.K. and Pearce II, J.A.	1992	Identification of retrenchment and recovery in turnaround	Internal/External factors Situation severity Cost and asset reduction Stability Efficiency maintenance and entrepreneurial expansion Recovery
Dolan, P.F.	1993	Introduce four-phased rescue plan approach to turnaround	Bankruptcy score Diagnostic study Turnaround plan Monitor plan
Chowdhury, S.D. and Lang, J.R.	1993	Marshall financial support for a turnaround	
Pearce II, J.A. and Robbins, K.	1993	Same model as 1992	
Chowdhury, S.D., and Lang, J.R.	1994	Focus on operating turnarounds	
Fredenberger, W.B. and Bonnici, J.	1994	Introducing the life cycle extension theory	
Barker III,V.L. and Mone, M.A.	1994	Oppose Robbins and Pearce II retrenchment theory	
Pearce II, J.A. and Robbins, K.	1994	Defending retrenchment theory	
Arogyaswamy, K., Barker III, V.L. and Yasai-Ardekani, M.	1995	Introducing a two-stage contingency model of firm turnaround	Decline stemming strategies Recovery strategies
Barker III,V.L. and Duhaime, I.M.	1997	Investigate the extent of strategic change	
Barker III,V.L. and Mone, M.A.	1998	Introduce strategic reorientation in turnaround model	
Harker, M.	1998	Focus on marketing strategies during turnaround	

Harker, M. and Sharma, B.	1999	Focus on leadership strategies during turnaround	
Castrogiovanni, G.J. and Bruton, G.D.	2000	Retrenchment	
Balgobin, R. and Pandit, N.	2001	Discuss stages in turnaround process	
Barker III, V.L., Patterson, P.W. and Mueller, G.C.	2001	Focus on management changes	
Sudarsanam, S and Lai, J.	2001	Focus on restructuring strategies	Operational restructuring Managerial restructuring Asset restructuring Financial restructuring
Barker III, V.L. and Barr, P.S.	2002	Refer to 1998	
Lohrke, F.T., Bedeian, A.G. and Palmer, T.B.	2004	Introduce three phase turnaround process	Turnarounds situation; 1) Decline Turnaround response 2) Response Initiation Turnaround outcome 3) Transition 4) Outcome
Kow, G.	2004	Identify elements of turnaround	
Sheppard, J.P. and Chowdhury, S.D.	2005	Introduce success and/or failure into model	
Smith, M. and Graves, C.	2005	Turnaround as two key phases and a series of integrated steps	Depicts the turnaround process as a series of integrated steps Two key phases – the decline stemming- and the recovery phase. Concentrate on the severity of the financial distress, the amount of free assets available, size, ability to stem the decline, stabilise, retrenchment activities to improve efficiency and cash flows
Pearce II, J.A. and Robbins, K.	2008	Acknowledge the role of strategic change and growth in turnaround process	

4.5.2 HOFER'S CONTRIBUTION (1980)

Hofer (1980:20) distinguishes between strategic and operational turnarounds. He based his turnaround modelling on the patterns of decline in a business. These patterns dictate which turnaround strategy is to be followed. Hofer (1980:21) opines that before beginning a turnaround, the going concern value of the business must be greater than its liquidation value. Figure 4.1 illustrates the concept of a "health check", which Hofer introduced to choose the correct turnaround strategy, choosing between operational and/or strategic intervention. Where both the strategic and the operational health are weak, a combination approach is advocated. Strategic turnarounds will be strategies that call for entering new businesses or entering into new ventures.

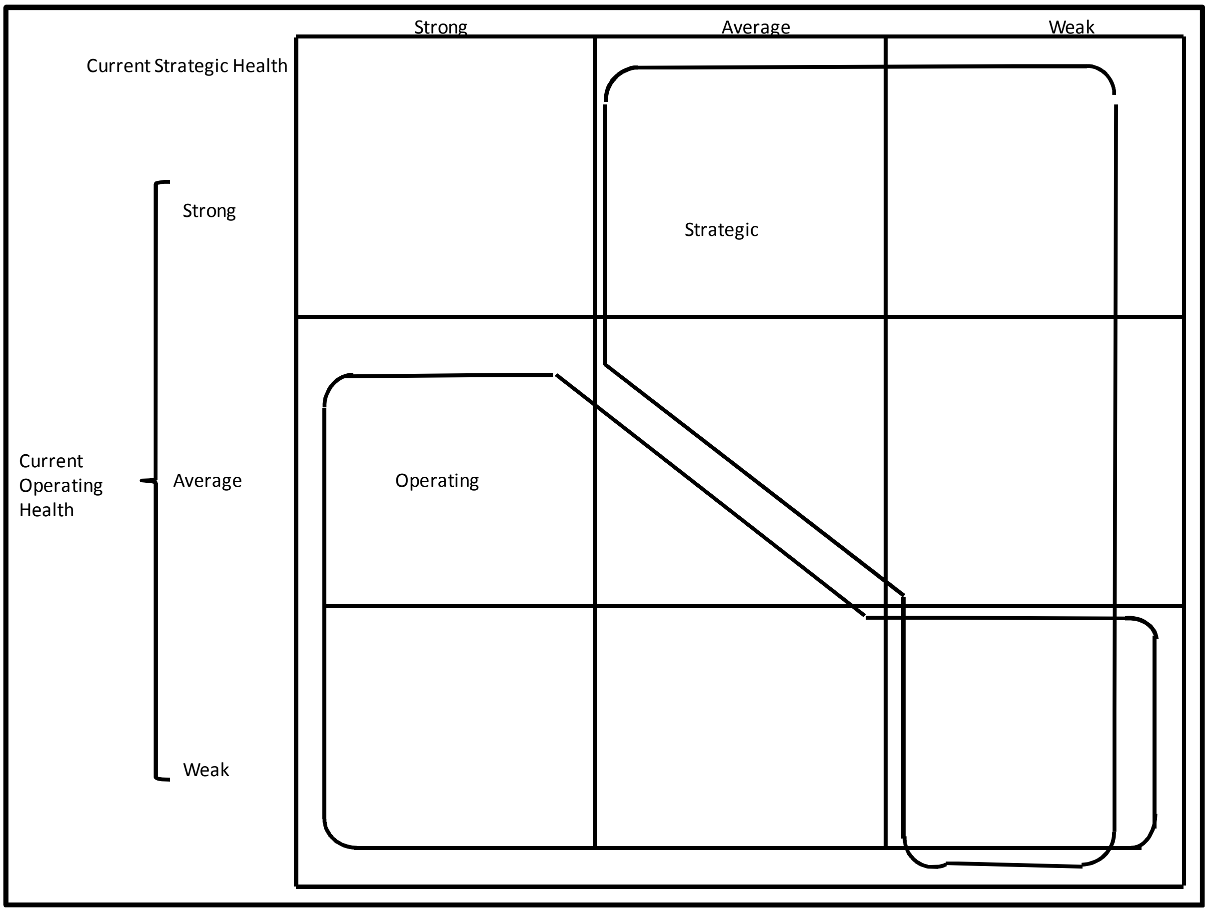

Figure 4.1 The strategies companies chose (Hofer, 1980:25)

Hambrick and Schecter (1983:236) present Hofer's four turnaround strategy indicators: revenue generation, product/market refocusing, cost cutting and asset reduction. Figure 4.2 illustrates the four strategies on a matrix where double signs suggest a primary indicator and one sign a secondary indicator. The focus of the turnaround will be directed at the two-sign indicators. Accordingly, the one-sign indicators are a lesser component of the turnaround strategy. The deduction made here is that, as the turnaround progresses, the Hofer matrix will have to be revisited and repositioned, and the necessary adjustments to the strategic direction will have to be made.

Hofer divides operational turnarounds (no strategy change at all) into four types:

- increasing revenues
- decreasing costs

- decreasing assets
- embarking on a combination effort.

In later studies, Hofer (1989:39) investigated the nature of turnaround situations by including a business review process which analyses the following variables:

- assessing current operating health
- financial condition
- market position
- technical stance
- production capabilities
- assessing current strategic health
- product/market matrix
- technological and production capabilities
- financial capabilities.

Expected Indicators of Hofer's Four Turnaround Strategies.

	Strategy			
Strategic move	**Revenue generation**	**Product/Market Refocussing**	**Cost cutting**	**Asset Reduction**
Product/market Initiative				
Sales from new products	++			
Product R&D	++		-	
Marketing	++		-	
Product quality	--	+		
Price	--			
Market share	++	-		-
Efficiency				
Employee productivity		+	++	
Relative direct costs		+	--	
Asset levels and use				
Receivables/revenue	+		-	--
Inventories/revenue	+	-	-	--
Plant and equipment newness				--
Capacity utilization	+	-		++

Two signs suggest a primary indicator (stressed by Hofer as integral to the strategy); one sign suggests a secondary indicator (an expected by-product or lesser component of the strategy.

Figure 4.2 Hofer's four turnaround strategy indicators (Hambrick & Schecter, 1983:236)

Hofer (1991:20) further discusses patterns of decline as causes of decline, both strategic and operational, in comparison with the turnaround response – strategic and operational.

4.5.2.1 Summary of Hofer's contribution

Hofer (1980:25) introduced the business "health" concept as is depicted by figure 4.1. The two areas where a business's current position is plotted are the operating and the strategic areas. In plotting the business on a matrix, a clear indication of the state of current operating health, or the state of current strategic health, will emerge. Hofer advocated a relationship between severity of decline and appropriate recovery actions , and Indentified four "gestals", they are:

- cost reduction activities
- revenue increasing activities
- market/product refocusing activities
- asset reduction activities.

4.5.3 BIBEAULT'S CONTRIBUTION (1982)(reprint 1999)

Bibeault (1998:263) structured his turnaround model using five distinctive phases. The first stage is the "evaluation stage" where, as the name indicates, the business review or analysis is contemplated. During the second phase, the "planning strategies in turnaround situations", Bibeault argues that the turnaround plan and the tactics used need to follow the following stages:

- management change stage
- emergency stage
- stabilisation stage
- return to normal stage.

The third stage is the 'emergency stage' where, as the name indicates, the business will do what is necessary to survive.

This is a traumatic stage and the now generic phrase, “stop the bleeding”, is of the essence. However, the actions taken will not necessarily lead to survival.

The fourth stage, the “stabilisation stage”, is the settling down phase after major interventions. This stage reflects on the emergency actions and, although no less important, at a more subdued pace. The final stage in Bibeault’s turnaround process is “return to growth”. This will entail that the company’s financial position is restored to such a level as to sustain normal growth. The host of referrals in the literature to Bibeault’s contribution is a testimony to the salient work done by him, which acknowledged by a host of turnaround academics, practitioners and business in general.

4.5.3.1 Summary of Bibeault’s contribution

Bibeault’s identified four key success factors for turnaround success:

- new, competent management
- viable core operation
- adequate bridge financing
- improved employee motivation.

4.5.4 HAMBRICK AND SCHECTER’S CONTRIBUTION (1983)

Hambrick and Schecter (1983:245) discuss failed turnarounds and warn that “moving too fast” can lead to further demise and ultimately failure. Hambrick and Schecter (1983:247) introduced a cluster analysis in the research on turnarounds. In this research, Hambrick and Schecter used published case histories from *Fortune Magazine*. In their analysis they used Hofer’s four strategy approaches to derive at three successful turnaround gestalts. Consequently, the application of the asset/cost surgery would apply to businesses with low levels of capacity utilisation, selective product/marketing pruning would be applied to businesses with high capacity utilisation and the piecemeal strategy would apply to businesses that have high market share.

4.5.4.1 Summary of Hambrick and Schecter's contribution

Hambrick and Schecter (1983:247) contributed to turnaround modeling by identification of sub-strategies for business turnaround and three "gestalds" out of Hofer's four tier approach. They are:

- Asset/cost surgery,
- Selective product/marketing pruning
- Piecemeal strategy.

4.5.5 O'NEILL'S CONTRIBUTION (1986)

O'Neill (1986a:82) introduced sub-strategies to underscore the main turnaround strategies implemented by Hofer (1980:25). O'Neill used a sample of nine manufacturing and four service businesses, nine of which were turned around and four of which were non-turnaround businesses. Using selective market and product pruning, he identified a number of sub-strategies underscoring the main turnaround strategy. These sub-strategies are the following:

- Management process
    - turnaround effort usually preceded by management change
    - redefinition of businesss business
    - policy changes
    - growth strategies
    - attention to re-structuring
    - planning.

- Key factors in turnaround
    - competitive position
    - product life cycle/ general market conditions
    - industry type
    - change in competitive patterns
    - cause of decline

- o new strategic era.

4.5.5.1 Summary of O'Neill's contribution

The main contribution is the identification of sub-strategies for turnaround. The sub strategy approach broadens the scope of the investigative stage of the turnaround process. It does not necessarily contribute a new formula to turnaround strategy but emphasises the finer detail in the process.

4.5.6 ZIMMERMAN'S CONTRIBUTION (1989)

During 1986, Zimmerman (1986:113) investigated four turnaround businesses and concluded that there is a call for control in business turnaround situations. He argues that effective control can be achieved through the use of the right people, who will be characterised by their willingness to play an active role in establishing control. He conducted two studies: in study 1 the sample comprised four manufacturing businesses, including two turnaround businesses, one marginal business and one non-turnaround business. The data source used was public archives.

In study 2, the sample consisted of 15 mature manufacturing businesses, eight of which were turnaround and seven non-turnaround businesses. Zimmerman used financial records, manuscripts, case histories and interviews in his endeavour to identify successful turnarounds.

In conclusion, Zimmerman (1986:113) summarised a turnaround as the following:

- a multifaceted process which has minimum requirements
- a referent organisation
- a new and additive view of the environment
- a systematic approach to the process of examining the environment
- the critical clarification and articulation of values
- old values are preserved as new values are added
- traditional morality and values influence turnarounds

- the systematic withdrawal of resources improves organisational performance.

Later, Zimmerman (1989:117) structured a turnaround process that dealt with the planning of efficiencies, and he concluded that a moderate overhead structure is required. The focus is clearly on production efficiency and operational issues, as indicated by the lower left-hand column in figure 4.3. The process concludes with a "successful turnaround". The Zimmerman model mainly concentrates on operational inefficiencies in the business, and if these inefficiencies are addressed, caters for one outcome – a successful turnaround.

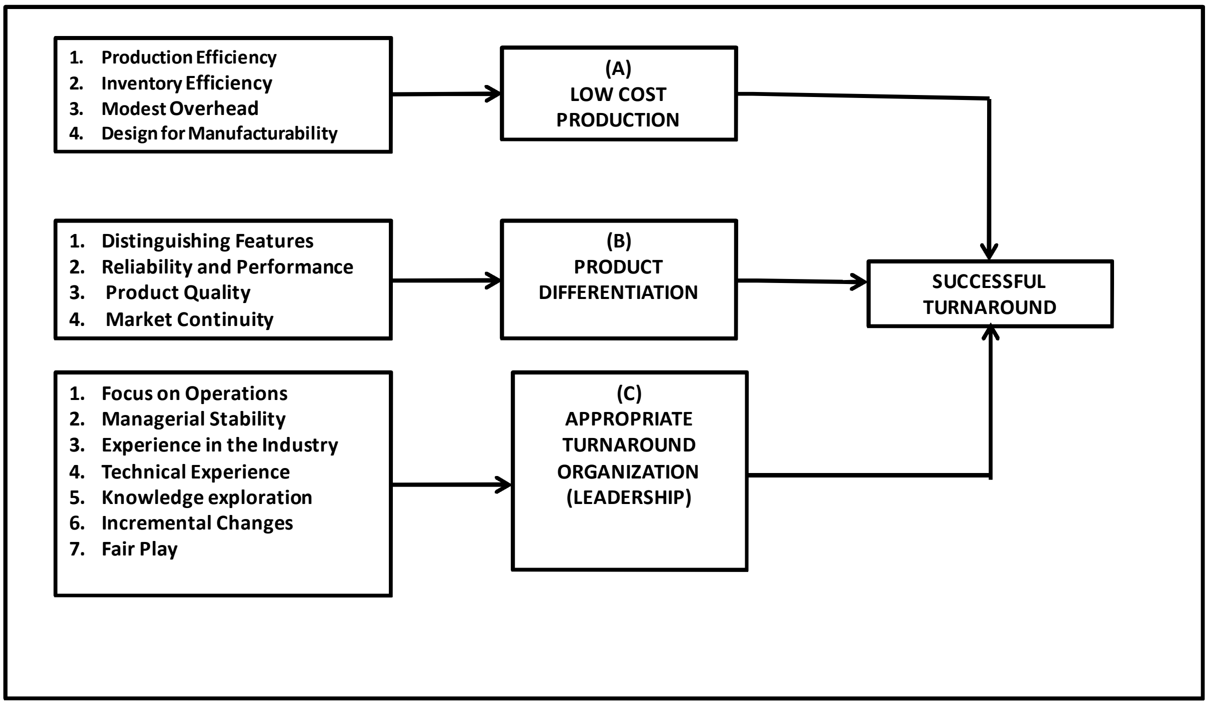

Figure 4.3 The successful turnaround process (Zimmerman, 1989:117)

4.5.6.1 Summary of Zimmerman's contribution

Zimmerman contributed to business turnaround by introducing a model that relates to the nature and severity of economic difficulties, a low cost producer, the differentiation of products and leadership, and the turnaround organisation.

4.5.7 BOYLE AND DESAI'S CONTRIBUTION (1991)

Boyle and Desai (1991:33) researched and characterised the causes of failure in small businesses, subsequently forming typologies from which to construct a generic approach to turnaround. They grouped 24 failure factors into four categories. The main aim of the grouping was to determine the origin of the warning signs – whether they are internal or external to the business, and whether they require an administrative or a strategic response. Figure 4.4 illustrates the response requirements against the matrix of origin and locality.

4.5.7.1 Summary of Boyle and Desai's contribution

Boyle and Desai contributed to turnaround modelling by introducing a four-cell approach to generic turnaround. These four cells are depicted in figure 4.4. The main attribute of this approach is that within these cells the variables are measured against the following quadrant matrix:

- internal
- external
- administrative
- strategic.

4.5.8 ROBBINS AND PEARCE'S CONTRIBUTION (1992)

Robbins and Pearce (1992:296) maintain that, at the stabilisation stage, the recovery must be matched to the causes of the decline, as this will be the test for implementing return-to-growth, entrepreneurial and/or operating strategies. Robbins and Pearce (1992:291) designed a two-stage turnaround response model including governance factors, which they used on 32 textile mill businesses in their research. The research was conducted using questionnaire and public/company archives.

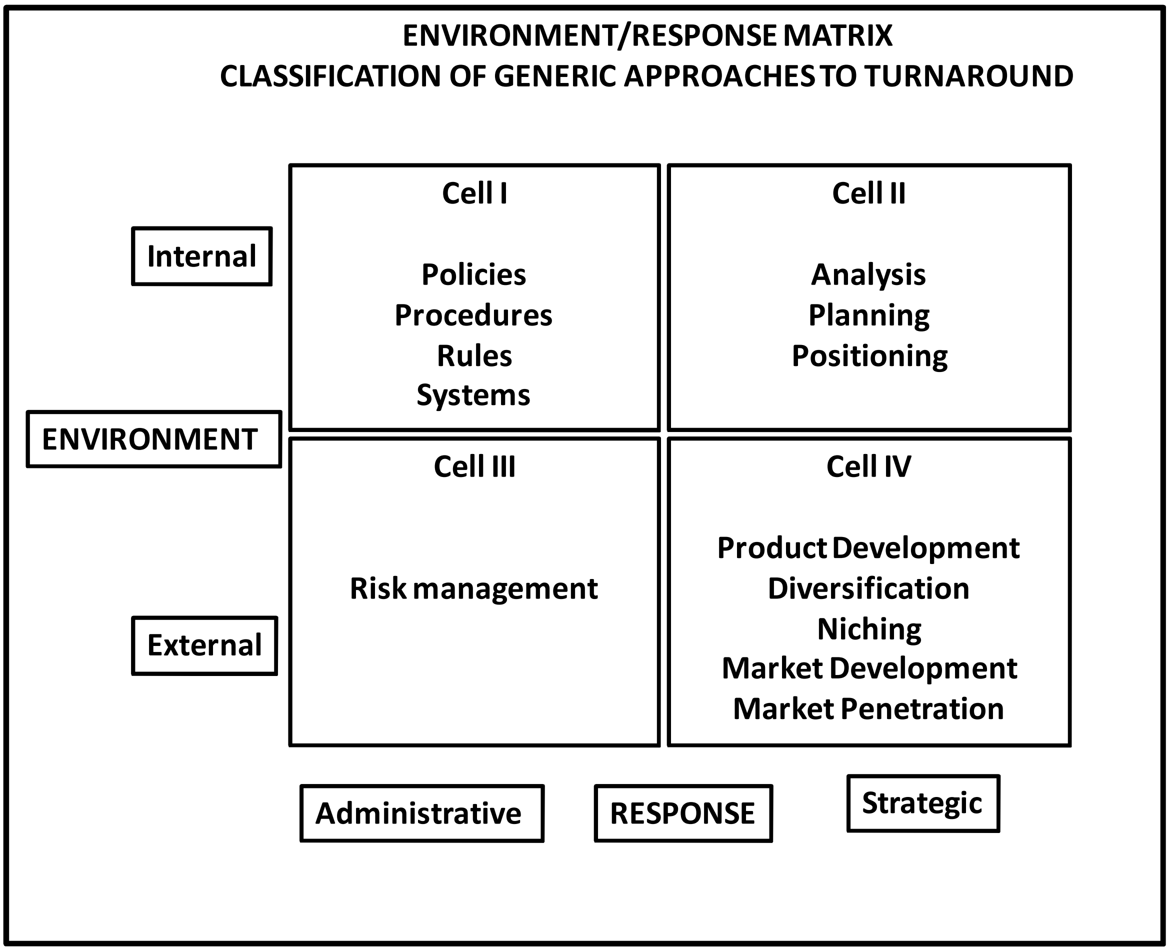

Figure 4.4 Environment/response matrix (Boyle & Desai, 1991:38)

The two stages identified are the turnaround situation and the turnaround response. Within this two-stage model they included three sub-stages namely the "cause", the "retrenchment phase" and, finally, the "recovery phase". The retrenchment phase was further developed by Robbins and Pearce and led to various academic debates. Pearce and Robbins (1993:614) extend the retrenchment theory, which they describe as a "deliberate reduction in costs, assets, products, product lines, and overhead" in the commencement stage of a turnaround. Castrogiovanni and Bruton (2000:25) raise a counter argument, when they challenged the Robin and Pearce II approach. They are against the generic approach of a retrenchment phase applicable to all turnaround situations.

According to Castrogiovanni and Bruton (2000), a turnaround strategy should be purpose made for a specific turnaround case, addressing the causes of decline. The Robbins and Pearce II turnaround model, illustrated in figure 4.5, acknowledges internal and external causes for decline. The focus of the model is retrenchment of costs and assets. In itself retrenchment forms part of any successful turnaround but it is not the only focus area of importance. The model finally allows for a recovery phase.

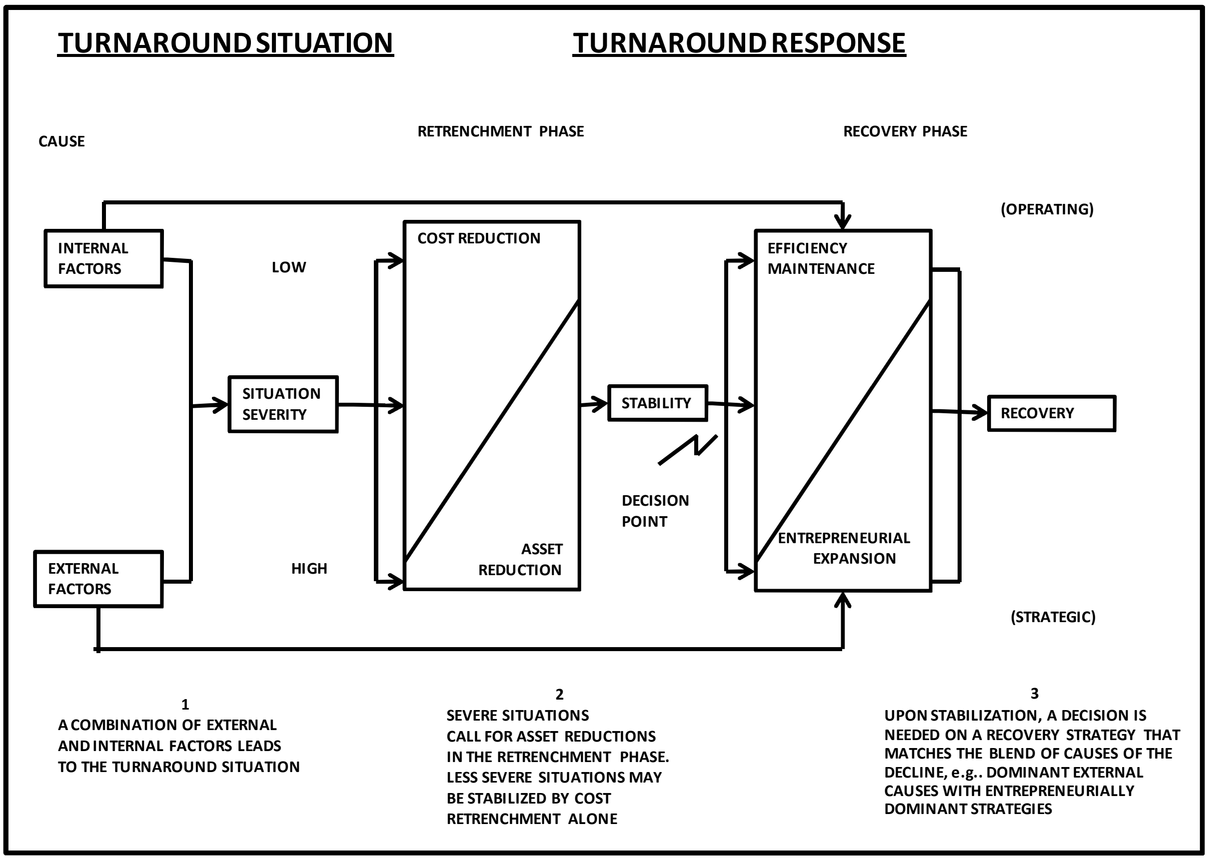

Figure 4.5 A model of the turnaround process (Robbins & Pearce, 1992:291)

4.5.8.1 Summary of Robbins and Pearce's contribution

Robbins and Pearce contributed significantly by identifying retrenchment and recovery processes in turnaround situations. They also added internal and external factors and concentrated on the situation severity, cost and asset reduction, and the stability of the business during turnaround. Finally, they concentrated on the recovery; when turned around the business focus is on efficiency maintenance and entrepreneurial expansion.

4.5.9 FREDENBERGER AND BONNICI'S CONTRIBUTION (1994)

Fredenberger and Bonnici (1994:60) argue that the turnaround process "if successful, may be chartered as an inverse product life cycle". Life cycle theories entail the "extension" of the life of a product or, as the authors indicate, the life of a business. They ponder on the information types that should be included in the investigative stage, which forms the focus of their study, and list the following types:

- cost analysis
- expense analysis
- productivity and human resources
- productivity and physical resources
- productivity of market
- financial analysis
- working capital analysis.

4.5.9.1 Summary of Fredenberger and Bonnici's contribution

In introducing the life cycle extension theory, Fredenberger and Bonnici align the product life cycle theory with turnaround and argue that a turnaround is an extended life added to the existing deteriorating life span of a business.

4.5.10 AROGYASWAMY, BARKER AND YASAI-ARDEKANI'S CONTRIBUTION (1995)

Figure 4.6 concentrates on strategic reorientation and incremental strategic change. Arogyaswamy *et al.* (1995:494) debate the constraints of turnaround modelling, highlighting their major concerns:

- modelling focussing primarily on, retrenchment and efficiency improvements as initial response to decline
- turnaround often does not model the most important contingencies affecting the turnaround process

- turnaround models fail to capture the complexity of the turnaround process.

The model concentrates on the interaction between variables and forces within the business. It proposes that turnaround businesses demonstrate two distinct outcomes in response to decline. The first response is “decline-stemming strategies that reverse the dysfunctional consequences of decline”, and the second response, which is in line with this research focus, “recovery strategies that position the business to better compete in its industry”.

4.5.10.1 Summary of Arogyaswamy, Barker and Yasai-Ardekani’s contribution

They contributed by introducing a two-stage contingency model of business turnaround:

- decline stemming strategies
- recovery strategies.

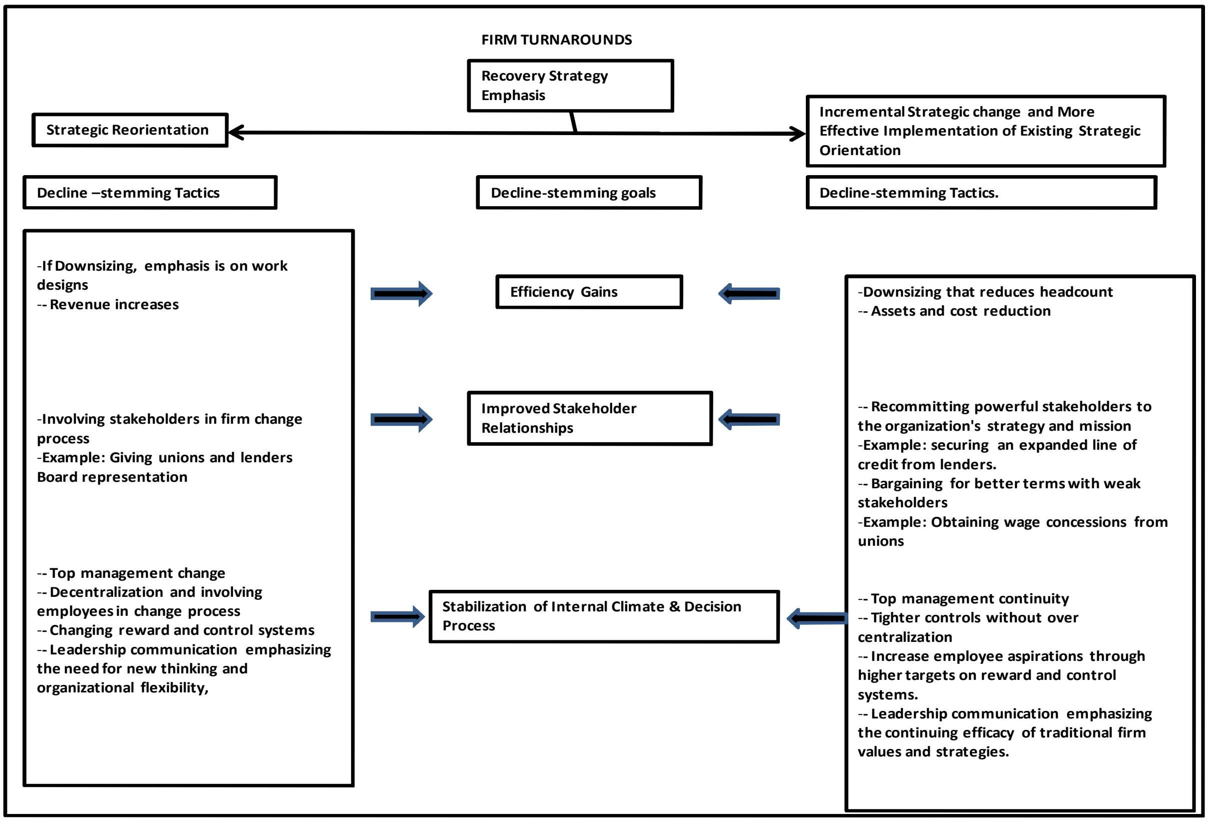

Figure 4.6 Business turnarounds (Arogyaswamy *et al*. (1995:494))

4.5.11 LOHRKE, BEDEIAN AND PALMER'S CONTRIBUTION (2004)

Lohrke *et al.* (2004:172) agree that the first stage of a turnaround is a situation analysis (see fig. 4.7). These authors (2004) conclude that it is necessary to look beyond financial decline to broader indices that trigger the turnaround process, and thus introduced the Top Management Team (TMT) scanning behaviours.

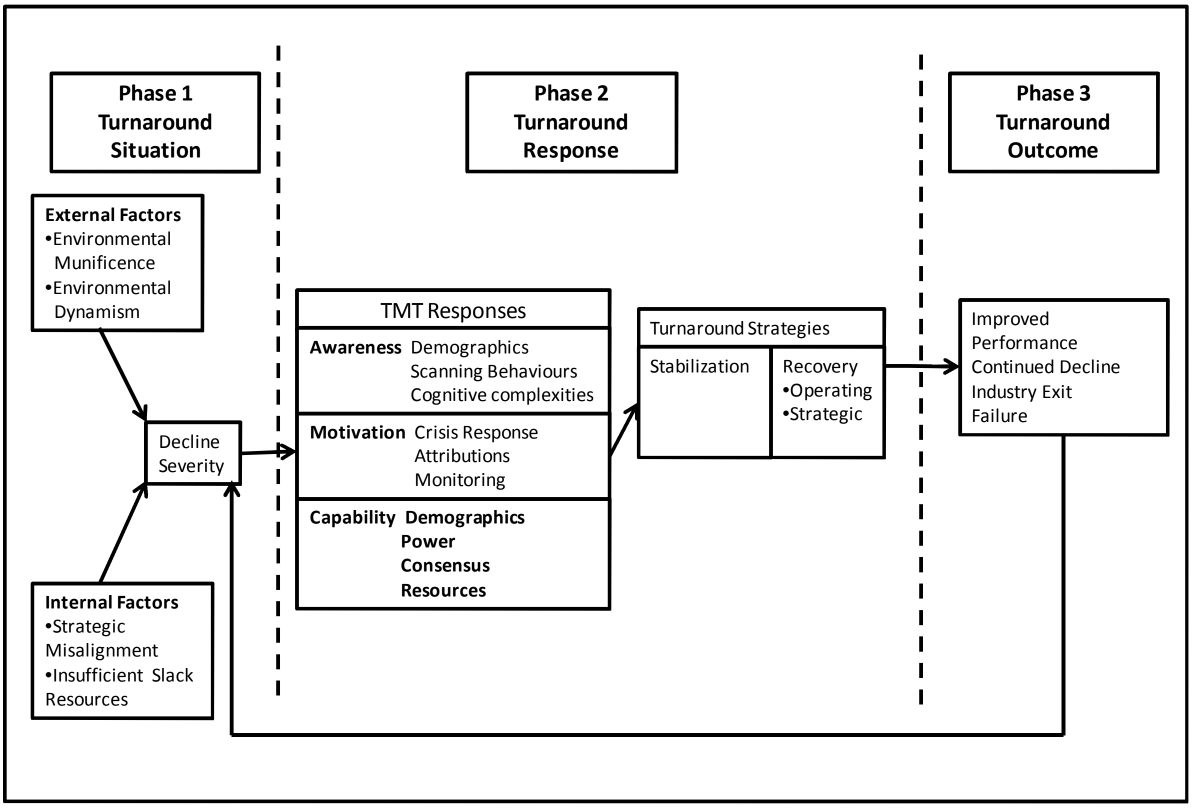

Figure 4.7 An expanded model of the turnaround process (Lohrke *et al.*, 2004:73)

4.5.11.1 Summary of Lohrke, Bedeian and Palmer's contribution

Lohrke *et al.* introduced the Top Management Team (TMT) approach. In terms of this approach they identify a three-phase turnaround process:

- turnaround situation
  - decline
- turnaround response
  - response initiation

- turnaround outcome
  - transition
  - outcome.

4.5.12 SMITH AND GRAVES'S CONTRIBUTION (2005)

Smith and Graves (2005:308) attribute the distressed state of a business to the severity of the problem. They ponder on the influence of the business size and the free assets available. Under the heading "decline stemming strategies", they discuss the execution of the turnaround which evidently led to stabilisation, and address the causes of decline and the business's competitive position. Smith and Graves (2005:316) developed a turnaround model to reduce the misclassifications brought about by type I and type II errors, measuring the severity of distress.

The turnaround process (fig. 4.8) that they propose is quite comprehensive, and addresses the turnaround situation in terms of the causes of decline. The second stage in their model is to formulate decline-stemming strategies, which concentrate on internal efficiencies and support. Then, before entering into the recovery phase of the model, the causes of decline are revisited. The recovery decision will have two proposed directions, firstly, maintenance and, secondly, reconfiguration. The final phase is the extent of the recovery, which can be successful or not.

Smith (2005:73) argues that a liquidation analysis of the business's balance sheet is useful when considering a going concern. A range of researchers and authors, (as indicated in appendix C), however, did not include the investigation of the affairs of the business in their research as a first stage analysis of the turnaround event. Nevertheless, the researchers that did include the investigation of the business's affairs have various approaches and terminology for this stage.

4.5.12.1 Summary of Smith and Graves's contribution

Smith and Graves see turnaround as two key phases and a series of integrated steps. The two key phases are the decline stemming and the recovery phase. These concentrate on the severity of the financial distress, the amount of free assets available, size, ability to stem the decline, stabilisation, retrenchment activities to improve efficiency and cash flows.

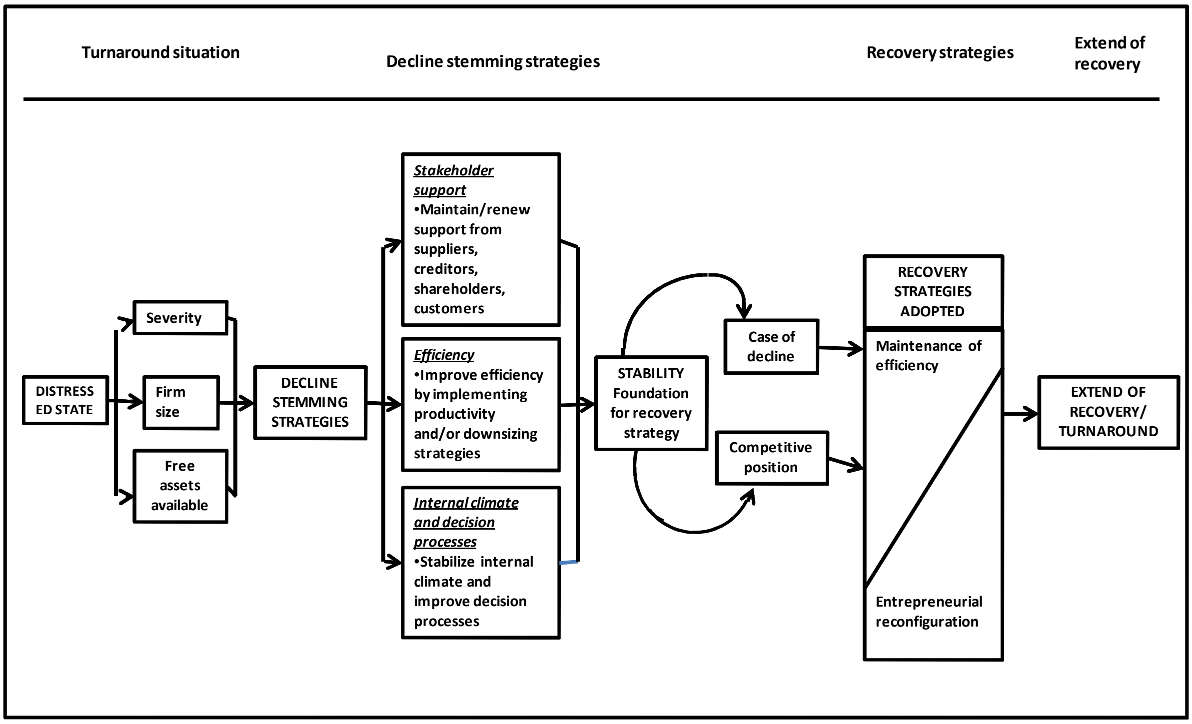

Figure 4.8 Turnaround process (Smith & Graves, 2005:308)

4.5.13 SHEPPARD AND CHOWDHURY'S CONTRIBUTION (2005)

Sheppard and Chowdhury (2005:245) add a specific outcome to the turnaround process. This can be either success or failure, as shown in figure 4.9. The perceived shortcoming would be to have a step in the process that will highlight the probability of failure early in the process.

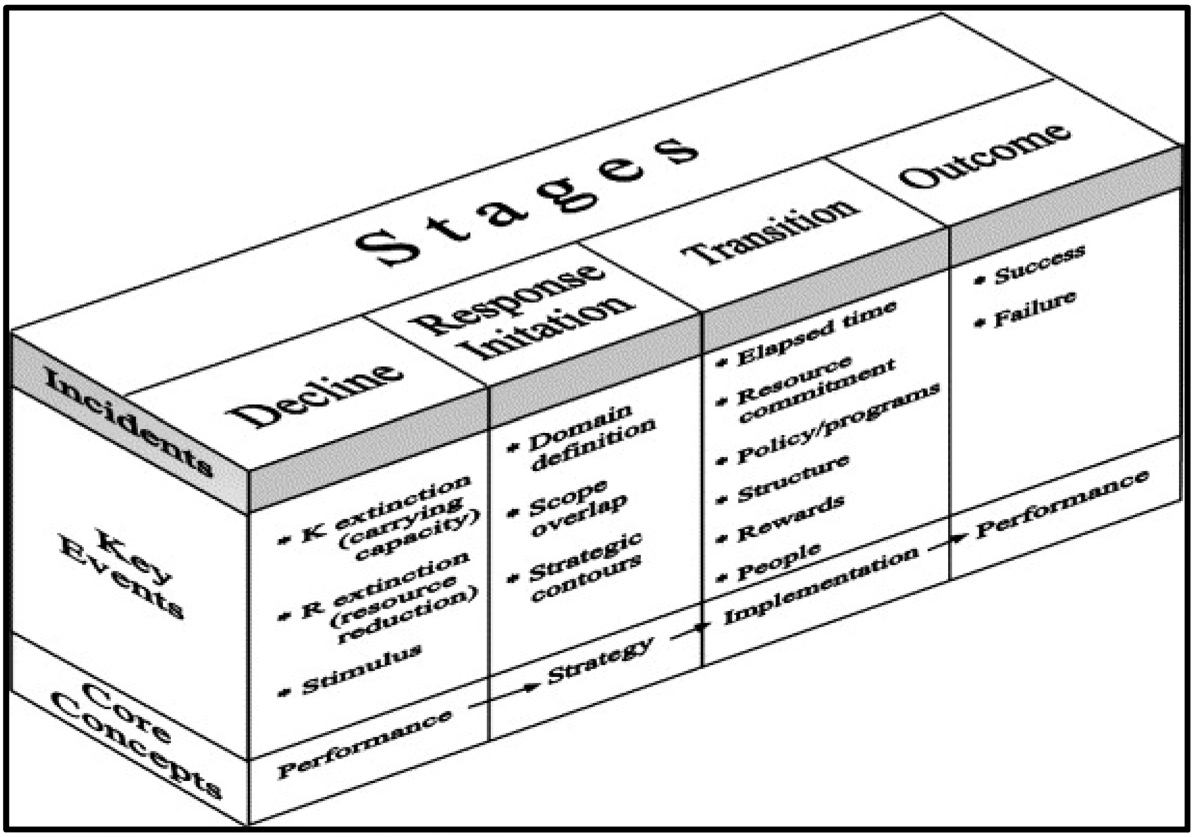

Figure 4.9 Key events and core concepts in turnaround/failure (Sheppard & Chowdhury, 2005:245)

4.5.13.1 Summary of Sheppard and Chowdhury's contribution

The introduction of success and/or failure into a model.

4.5.14 PRETORIUS (2008)

Figure 4.10 illustrates the way in which Pretorius (2008a:23) perceives the unique set of preconditions that prevail in the Porter strategic model. He opines that the Porter model's view of opportunity and competitive advantage are analogous to a turnaround situation. Ormanidhi and Stringa (2008:62) also favour the Porter model of generic competitive strategies to evaluate business. They argue that the use of this model is complementary owing to the following qualities:

- its popularity, as it is substantially used
- the model has a well-defined structure
- the feasibility of the structure in empirical use
- concept clarity of the model

- the simplicity and generality of the model.
- owing to the high degree of detail the model complements other models.

Pretorius splits the precondition for a turnaround event into four distinct categories: performing well, underperformance, distress and, finally, decline. A turnaround situation is determined by its own configuration of preconditions (see fig. 4.10) and many additional lesser variables may play a role or act as triggers.

Businesses in the "performing well" quadrant, depicted on the top left of figure 4.10, are not experiencing conditions that warrant a turnaround. Typically, they experience good sales demand, growing market share and established competitive advantage.

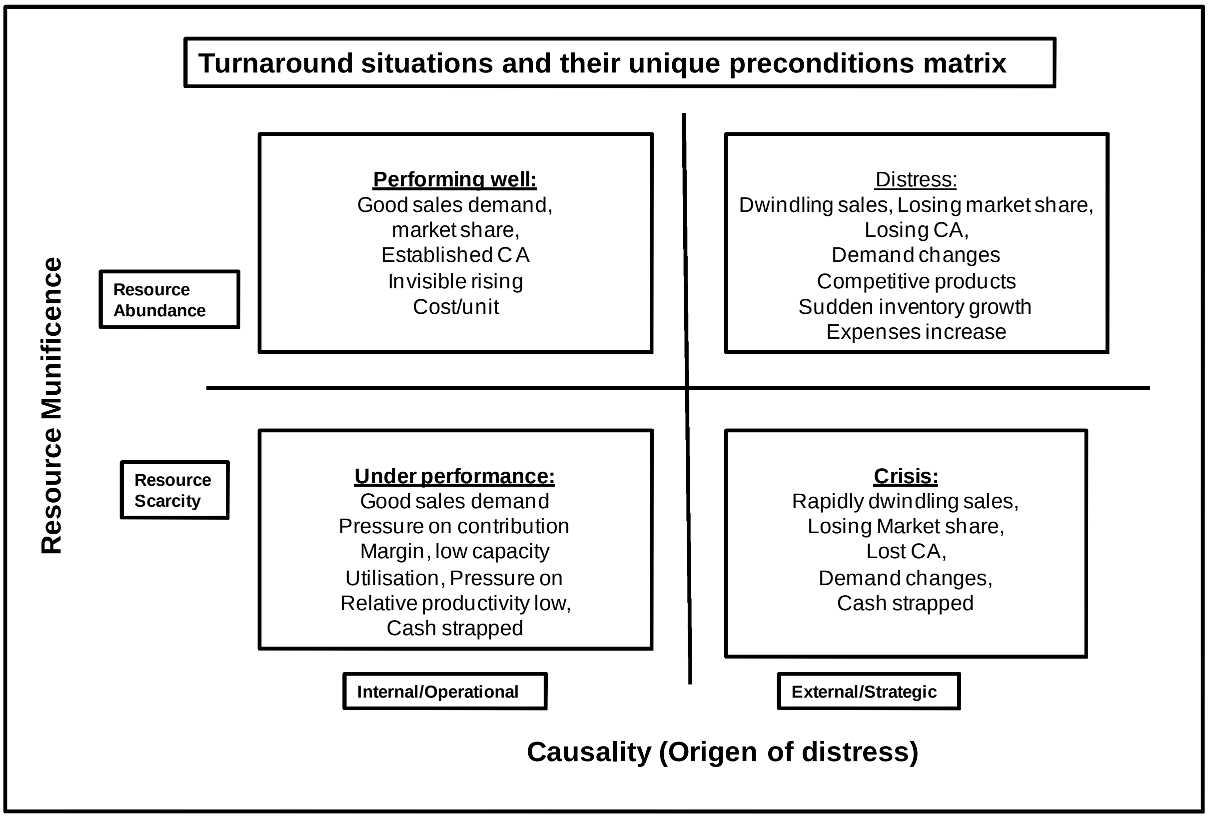

Figure 4.10 Turnaround situations and their unique preconditions matrix (Pretorius, 2008:23)

The quadrant depicting "underperformance", is disposing of scarce resources. Capacity utilisation is low, and a poor positioning on competitive advantage is evident. Consequently, a turnaround situation is inevitable to address the very inefficiencies that create the underperformance.

The preconditions for the distress quadrant are characterised by abundant resources but declining sales demand owing to a loss of competitive advantage.
Hence, a turnaround situation is inevitable to address the loss of market share, quality and/or service issues causing the distress.

Decline quickly turns into a crisis and a definite turnaround event. However, a turnaround intervention may be too late, depending on the severity of the crisis. As part of a turnaround, liquidation or the selling of non-core divisions could be contemplated.

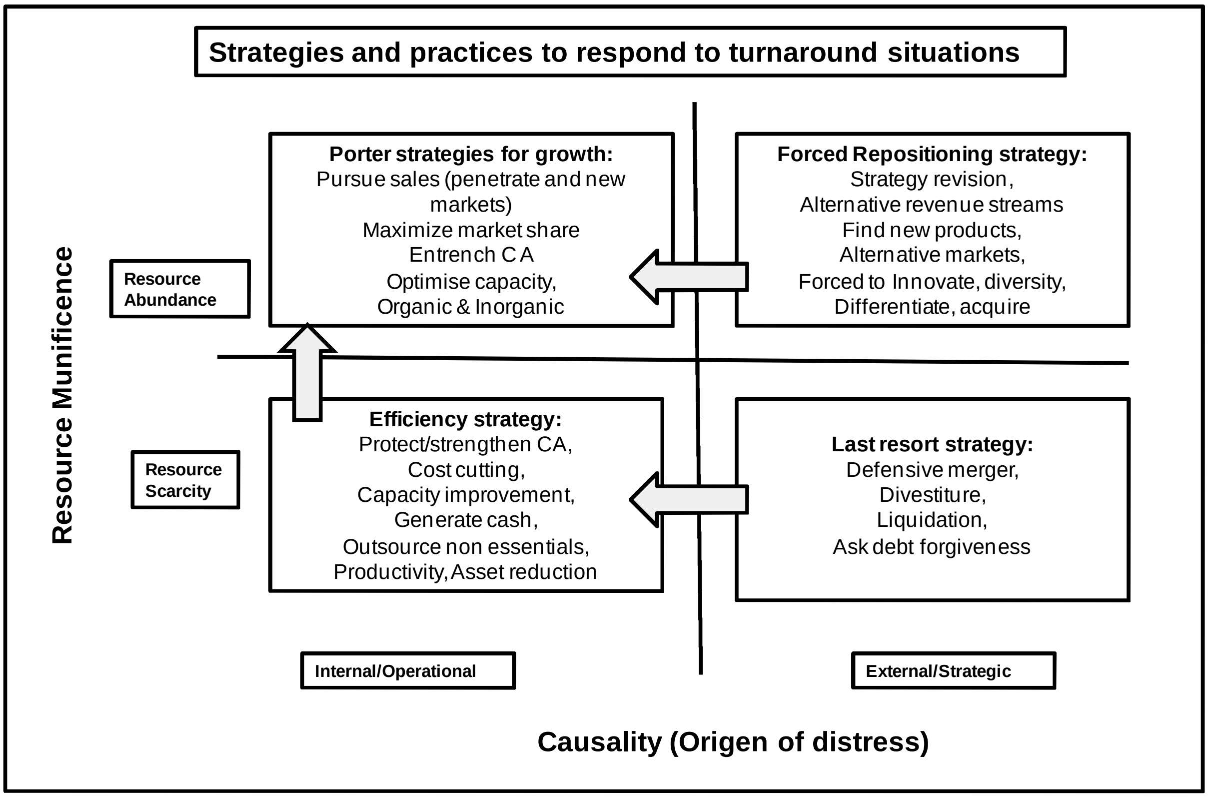

Figure 4.11 Strategies and practices to respond to the turnaround situations (Pretorius, 2008:24)

4.5.14.1 Summary of Pretorius's contribution

Pretorius (2008a:24) states that business turnaround essentially demands a new choice of Porter's generic strategic options as a focal point. In last resort strategy it requires divestiture or liquidation and the start up of new ventures, which involves determining the new positioning and where competitive advantage will be sought. With abundant resources, Pretorius concludes that "Porter's matrix is still core, but when there is scarcity of resources, the focus moves towards finding efficiency first".

4.6 TURNAROUND PLANNING

Seminal work has been done by Bibeault (1982), Hofer (1990), Barker (1998, 2005), Brenneman (1996), Dolan (1983), Fredenburger (1994) and Pearce and Robbins (2008) and, in the South African context, Harvey, (2002), Burdette (2004), Loubser (2004) and Pretorius (2004). Pandit (1997:33) has grouped the salient research done by researchers, academics and authors from 1976 up to 1995. Pandit's table classifies the theory into 1) unit of analysis; 2) sample characteristics; and 3) data source(s). His summary of research progress is reflected in Appendix D. All the authors, some to a lesser extent, agree on the investigation of the sources of decline. Turnaround practitioners and other stakeholders are constantly challenged with type I and type II errors. A type I error is to turn around a company that should not be turned around, and type II error is to not turn a business around that should have been turned around.

The alleviate this problem, Quinn *et al.* (1988:681) posed the following questions to be answered when assessing a business turnaround:

- Is the business worth saving?
- Sustainable or disinvest or liquidate?
- State of current operating health?
- State of current strategic health?

Castrogiovanni, Baliga and Kidwell (1992:27) pose the following questions, which need to be added to the questions posed by Quinn *et al.* (198:681):

- How sick is the business?
- In what stage of decline?
- CEO management involvement?

To arrive at appropriate answers to these questions, Gopal (1991: 81) proposes that the analysis should include an investigation of the:

- strengths and weaknesses of the business
- market
- organisational structure and quality and quantity of manpower
- finances.

The importance of establishing the business's value at an early stage of turnaround, in this instance the investigative step in a turnaround, is confirmed by Brockman and Turtle (2002:512) and Glantz (2003:314), maintain that an ideal situation for decision making at this stage would be to compare a liquidation scenario valuation with a going-concern (turnaround) scenario. Cocq, Legoux, De Loe, Oka and Zorn (2006:43), who conclude that there seems to be consensus that some form of feasibility and/or due diligence must be done in a very short space of time, confirm this consideration.

Akason and Kepler (1993:38) discuss the difference between a business review and the due diligence process. They conclude that the investigation should include:

- fully backed findings
- quantifications
- possible solutions
- guideline on managing a review which is also applicable to turnaround planning.

The due diligence process was discussed in chapter 1 as a tool for investigating a business's activity effectively. In the context of business turnaround, where a merger or acquisition is contemplated as part of the turnaround plan, Gillman (2001:7) defines a due diligence as follows:

- the examination of a potential target for merger, acquisition, privatisation or similar corporate transaction, normally by a buyer
- a reasonable investigation focusing on future material matters
- an examination being achieved by asking certain key questions, including, do we buy, how do we structure the acquisition and how much do we pay?
- an examination aiming to make an acquisition decision via the principles of valuation and shareholder analysis.

Business consultants, accountants and legal practitioners have embarked on their own design and approach to formulating a due diligence process. The Axiomate Group (2004) focus on the five key elements in a business infrastructure.

They are:

- technology
- finance and administration
- operations
- sales and marketing
- people, culture and organisation.

The importance of data integrity is underpinned by Cole (1994:48) in the early stages of the due diligence process. Cole states that it is crucial to get entrepreneurs to understand that providing high-quality information will speed up the process. This imperative is also true for a turnaround intervention.

The first phase of business turnaround planning, the investigative phase, is discussed briefly under the heading "Investigative phase". The application of verifier determinants during the investigative stage are of the utmost importance. Chapter 3 of the study has dealt comprehensively with the concept of verifier determinants.

Subsequently, the second phase of the turnaround planning is the actual drafting of the plan.

4.6.1 INVESTIGATION PHASE

The investigative phase is paramount in most authors' turnaround modelling discussed earlier in this chapter. In Section 130 of Chapter 6 of the new Companies Act is quite clear as to the responsibility of the turnaround practitioner. The practitioner must establish whether there is no reasonable basis for believing that the company is financially distressed, or that there is no reasonable prospect of rescuing the company. Section 141 states that the practitioner must, as soon as the investigation into the company's affairs is completed, "consider whether there is any reasonable prospect of the company being rescued".

This section further dictates that if the turnaround practitioner detects any adverse problems which will have an impact on the feasibility of doing a turnaround, the practitioner must inform all stakeholders. The most important outcome of the investigation phase when it is decided not to continue with a turnaround is depicted at the bottom of figure 8.1 (p233). The business can arrange for a compromise in terms of Section 150 of the Act, or the business can be liquidated as per Section 141(2)(b), which reads as follows: *"… apply to the court for an order discontinuing the business rescue proceedings and placing the company into liquidation."*

After due consideration of the responsibilities implied by the new Act, and predicting a positive representation, a decision will be made to continue with a business turnaround plan.

4.6.2 THE PLAN

The considerations that have to be included in the turnaround plan, as prescribed by the new Act, are dealt with comprehensively in section 5.7 in the next chapter. For the purposes of this chapter, reference is made to the salient research on the subject. The second column of Appendix B illustrates the full literature response to the planning phase.

The plan must demonstrate a defensible strategy in order for the courts and creditors to favour turnaround proceedings. In Grant Thornton's Catalyst Management Issues (2005b:2), they conclude that the funding requirements, future cash flow and debt repayment in relation to the turnaround plan must be "assessed with a high degree of certainty". Turnaround plans are clearly divergent (but not exclusive) from conventional business plans. Start-up businesses have projections for future possible performance issues, whilst existing businesses apply business plans to create new ventures, acquisitions and a change in business strategy.

The lack of proper measurements to test the validity and reliability of business turnaround plans by financial institutions and trade creditors has resulted in a deterioration in the use of and reliance placed on business plans as a business assessment tool. It is important that entrepreneurs identify the associated warning signs in a timely fashion in order to re-strategise and reorganise the business and steer it to safety. Entrepreneurs are reluctant and in many instances ill-equipped to compile the turnaround plans needed to initiate negotiations with creditors. This important management tool is then outsourced, and left to "professionals" to compile.

The environment in which an entrepreneur needs to promote his change (turnaround) plan is predominantly a hostile environment. Nevertheless, Hall (1980:75) concludes that survival is possible in a hostile environment if successful survival strategies are planned and implemented. The mere fact that entrepreneurs often do not compile their own turnaround plans lead to a total lack of understanding of their own businesses and contributes further to the poor reliance placed on turnarounds by creditors in general. Entrepreneurs seldom, if ever, apply turnaround plans as a strategic management tool to enhance their businesses. Section 150 of Chapter 6 of the new Companies Act requires that a business turnaround plan has to be presented to all creditors concerned, including the courts, in order to convince them to agree to a stay of proceedings.

Creditors have to be placed in a position to assess the turnaround plan before they can be expected to support the turnaround attempt by either reducing their claims and/or supporting it by extending lending or trade credit.

A turnaround plan will most probably not mirror a conventional business plan, as a more vigorous approach to strategic change will be required.

Balgobin and Pandit (2001:304) identify four categories addressing the formulation of a turnaround plan. They are “situation analysis, gaining control, managing stakeholders and improving motivation”. Once approved, the entrepreneur’s behaviour will have to adapt to the planned restrategising of the venture and they need to be aware of the possible impact. For this reason, a willingness to change needs to be present.

It is of the utmost importance that the personnel of the business are aware of the turnaround situation and the planned turnaround execution. Balgobin and Pandit (2001:314) argue that a turnaround plan which is communicated properly will reduce confusion and protect key critical resources. Kow (2004a:242) confirms this view by concluding that a communications plan must be part of the turnaround strategy in order to ensure that the concerns of employees are dealt with. The turnaround models in the literature (discussed under subsection 4.5), research did not include communication as a specific step, although clearly a very important factor is maintaining motivation levels.

The second and maybe the most important function of a proper turnaround plan is to ensure that future investors (post commencement finance) are confident that the business can return to sustainable competitive viability. Han, Huml, Kkaragal, Saito and Sundjaja (2007:7) are of the opinion that investors tend to divest if the turnaround plan lacks momentum and adequate execution. Cozijnsen, Vrakking and Van Ifzerloo (2000:153) also believe that the turnaround plan should include and consider the following variables:

- planning objectives
- organisational structures
- increased profits
- increased turnover
- increased efficiency

- improved effectiveness
- higher productivity
- increased market share
- improved environment
- quality improvement
- human objectives
- reduction of staff turnover
- increased employee satisfaction
- enhanced motivation of employees
- improvement of work environment.

Harker (1998:325) concludes that the foundation of a turnaround plan "is sound market knowledge". He states that there is a need for information and proper analysis of variables before constructing a turnaround plan. Clearly, sifficient time needs to be allotted to a business review in order to prepare and do a due diligence before the plan is presented to all parties. In this study, the possible turnaround models currently available to entrepreneurs in South Africa were investigated. Findings indicate that two distinct directions can be followed, namely, formal and informal turnaround.

The United Nations Commission on International Trade Guide (UNCITRAL) (2001:10) clearly indicates that one of the objectives of restructuring a business is to create a framework that will encourage entrepreneurs (businesses) to address their financial distress factors at an early stage.

4.7 CONCLUSION

From the literature exploration it is evident that some authors, such as Altman and Hotchkiss (2006), approach the study of turnaround management with a qualitative data approach, although accounting data formed the basis for most of the empirical research debated in the academic journal articles. Fortunately, a number of authors, such as Bibeault (1982), O'Neill (1986), Riana *et al.* 2003) and McCann *et al.* (2009), have a more pragmatic approach to turnaround and tend to drill down into the micro or qualitative issues. The timing of a turnaround is one of the more contentious issues addressed by stakeholders both internationally and nationally; and the main differentiator between business strategy and turnaround strategy manifests itself in the time factor. Turnaround is typified by very limited time as opposed to a business strategy that is moving less urgently. The second differentiating factor is that of resources, that is, scarce resources in turnaround, versus planned resources in normal strategic planning.

A number of models and/or actions in turnaround planning were identified and discussed in this chapter. Investigations into the new South African Companies Act, Act 71 of 2008, established the format of turnaround plans under Chapter 6 proceedings which will be dealt with in chapter 5 section 5.7.

CHAPTER 5
Literature review of turnaround legislative measures

CHAPTER 5
LITERATURE REVIEW OF TURNAROUND LEGISLATIVE MEASURES

"… a business rescue regime has a far better chance of succeeding if the insolvency system in which it is applied is debtor-friendly, as opposed to a creditor-friendly system of insolvency where business rescue regimes are not applied successfully."

Hamer (in Burdette, 2004:4)

5.1 INTRODUCTION TO A LITERATURE REVIEW OF LEGISLATION

This chapter deals with international trends in business rescue legislation. Discussions include the old and new South African legislation, with the rescue requirements of Chapter 6 of the new Companies Act, Act 71 of 2008, being discussed. The literature researched in this chapter is not an attempt to justify statutory rules, nor is it meant to be a legal discussion or an attempt to arrive at a legal solution, or an attempt to rewrite or criticise current, and very soon, historic legislation (owing to the implementation of a new companies act during in 2011), it merely attempts to give the reader a critical overview of South African legislation in a turnaround context. The overview focuses on existing South African legislation and various sources of data regarding company, insolvency and labour law are investigated. In addition, the implications and possible constraints that this legislation may have are investigated and discussed. In the South African context, auditing and law businesss will, no doubt, play an important role in the execution of Chapter 6 of the Act. The larger international businesss, such as Price Waterhouse Coopers, KPMG and Deloitte and Touche, as well as various local legal businesss and private practitioners, are currently in the process of positioning themselves to capitalise on the potential opportunities that will be created by Chapter 6 of the new Act.

The uncertainty in the appointment of a regulatory body has contributed to competition between various disciplines in the professional and business arena for this important position. The discussion in this chapter will deal with the turnaround event and the methodology to be adopted by the turnaround practitioner.

Part one of the literature research began with the current juncture in South African law, using the old Companies Act No. 61 of 1973, which was recently amended, as a point of departure.

Part two reflects on international bankruptcy legislation research from similar debtor-friendly regimes to obtain an understanding of global trends. Part three will deal with the seminal work of South African authors and researchers, carried out against the backdrop of development of a new South African bankruptcy process. In part four, Chapter 6 of the new Companies Act, Act 71 of 2008 is investigated and commented on. The research aims to identify possible associations between the practitioner's liabilities and the Act, as turnaround plans can be faced with various opportunities and/or obstacles that facilitate or obstruct their effective execution. Part five reviews the rescue plan as contained in Section 150 of Chapter 6 of the new Companies Act (Act 71 of 2008).

As Chapter 6 of the new Act is a new law and is, to date, unchallenged, it opens up a new management science in South Africa. This research included international insolvency, bankruptcy and liquidations laws and common law. It goes without saying that the legislation contained in Chapter 6 will, if required, be legally tested in our courts. In terms of the new Act, closed corporations will be phased out as the Act divides all companies into profit and non-profit companies, hence new closed corporations will be incorporated (Brewis, 2009:3). This study therefore refrained from referring to the rule of precedent or to any case law (except where applicable and then specifically indicated), but attempted to analyse all applicable Acts.

Pretorius and Holtzhauzen (2008:93) argue that the word "turnaround" implies that a declining business can be rescued, whilst a business that has actually failed cannot. However, a turnaround manager will still be appointed, which creates an agency relationship.

According to Combs, Michael and Castrogiovanni (2004:910), an agency relationship is formed when the principal (as one party) delegates authority to the agent (the other party). The turnaround manager assumes six liabilities, which are identified by Pretorius and Holtzhauzen (2008:94). These liabilities are the following: legitimacy; resource scarcity; leadership capacity; strategy options; data integrity; and integration (see table 5.1).

The turnaround practitioner must be able to address and resolve the various liabilities; for this reason the education, knowledge and skills required of the practitioner should be on a very senior and advanced level. In terms of the legislation, the minister still has to appoint the regulatory body for turnaround practitioners, but it is clear from deliberations with interested parties that the general view is that superior quality management is required.

To be able to understand the liability burden fully, Pretorius and Holtzhauzen (2008:103) have drawn up a matrix indicating the requirements with regard to each liability identified. The prerequisite of employing a multi-skilled, educated professional to discharge the turnaround practitioner’s responsibilities is emphasised by the variables under the headings “Liability, “Knowledge” and “Skills” requirements. In no particular order these are listed in table 5.1

5.2 CURRENT (HISTORIC) SOUTH AFRICAN COMPANIES ACT, ACT 61 OF 1973

5.2.1 INTRODUCTION

Currently, the South African government is revisiting consumer and business legislation as part of law reform to cater for job creation and job retention and a more coherent society. Accordingly, the National Credit Act, Act No. 34 of 2005, protects consumer rights. As the South African Insolvency Act, Act no 24 of 1936, is the only Act dealing with bankruptcy.

Roestoff and Renke (2005:96) argue that the main aim of the current Insolvency Act is not to provide debtors with debt relief, but they are of the opinion that the consumer law reform commission has adopted the United States' approach of "a new beginning".

Table 5.1 Liability, knowledge and skills requirements (Pretorius & Holtzhauzen, 2008:103)

Liability	Knowledge requirements	Skills requirements
Legitimacy	Legal framework of relevant acts Financial	Personal credibility Interpersonal skills Reputational slack Mustering support
Resource scarcity	Sales and markets Operations/logistics Human resources Management Efficiencies/effectiveness Environmental munificence	Diagnostic skills Analysing skills Conceptualising preconditions Learning from experience Ability to read preconditions Strategic formulation
Leadership capacity	Situational leadership Experience in leading people	Influencing capability Vision/direction Seeing the big picture Problem-solving skills Style (severity dependent) Creating a new culture
Strategy options	Strategic management Industry knowledge Environmental interactivity Cause-effect relationships	Innovative thinking Advanced strategic management skills Entrepreneurial thinking
Data integrity	Basic financial knowledge Taxation implications Financial ratios Causes, signs and flags	Basic financial skills Use of financial information

Integration	Wide understanding of general business principles Sales, marketing, operations and strategy interactions	Ability to integrate Ability to implement

The main aim of the consumer law reform is to combat over-indebtedness, but Renke, Roestoff and Bekink (2006:91) are of the opinion that the National Credit Act, will, apart from rendering consumer protection, also provide consumers with much-needed credit education and adequate information to allow consumers to make informed decisions.

The business rescue legislation contained in the new Companies Act is not dissimilar to that contained in the National Credit Act (Act 34 of 2005). Current regulatory pressures imposed by South African business legislation are described by Hall (1980:75) as part of the hostile environment in which entrepreneurs operate. South Africa is identified as a country with the most cumbersome labour laws.

Consequently, under normal circumstances it is difficult for a business to entertain an informal turnaround process, as there is currently no legal avenue; fortunately this situation will largely be rectified by the new Companies Act. As previously mentioned, formal turnaround strategies are not part of current legislation and the only option currently available is contained in Sections 311 and 427 of the old South African Companies Act, Act 61 of 1973.

In terms of Section 311 (old Companies Act, Act 61 of 1973), a compromise is often proposed to entrepreneurs as an alternative source of turnaround and (in terms of Section 311, old Companies Act, Act 61 of 1973) a company may enter into a compromise with its creditors to arrange debt restructuring. This is a court-driven process where both the creditors and the court must sanction the eventual compromise. Burdette (2004a:14) argues that this process is an expensive procedure to implement.

5.2.2 SECTION 311 COMPROMISE

The huge array of case law regarding these compromises is a clear indication that it is not always a simple undertaking. An application for a Section 311 (Companies Act, Act 61 of 1973) compromise relates to the distressed state that a company finds itself in. In the event that a court does not grant an order for a Section 311 compromise, the creditors are not bound to enter into any other arrangement and can file for liquidation.

Section 311 compromises are not uncommon practice in South Africa after liquidation (see also acts of insolvency later on in this chapter).

> **Section: 311**. *Compromise and arrangement between company, its members and creditors.*
>
> *(1) Where any compromise or arrangement is proposed between a company and its creditors or any class of them or between a company and its members or any class of them, the Court may, on the application of the company or any creditor or member of the company or, in the case of a company being wound up, of the liquidator, or if the company is subject to a judicial management order, of the judicial manager, order a meeting of the creditors or class of creditors, or of the members of the company or class of members (as the case may be), to be summoned in such manner as the Court may direct.*
>
> *(2) If the compromise or arrangement is agreed to by-*
>
> *(a) a majority in number representing three-fourths in value of the creditors or class of creditors; or*
>
> *(b) a majority representing three-fourths of the votes exercisable by the members or class of members,*

At the present juncture, the only legal pre-liquidation "turnaround" option/alternative available for the debtor is judicial management, as described in Section 427 (Companies Act, Act 61 of 1973).

5.2.3 SECTION 427 JUDICIAL MANAGEMENT

The conditions under which a court of law will consider placing a company under judicial management are described by Section 427(1) (old Companies Act, Act 61 of 1973) which reads as follows:

> **Section 427.** *Circumstances in which company may be placed under judicial management.*
>
> *(1) When any company by reason of mismanagement or for any other cause-*
>
> *(a) is unable to pay its debts or is probably unable to meet its obligations; and*
>
> *(b) has not become or is prevented from becoming a successful concern, and there is a reasonable probability that, if it is placed under judicial management, it will be enabled to pay its debts or to meet its obligations and become a successful concern, the Court may, if it appears just and equitable, grant a judicial management order in respect of that company.*
>
> *(2) An application to Court for a judicial management order in respect of any company may be made by any of the persons who are entitled under Section 346 to make an application to Court for the winding-up of a company, and the provisions of Section 346(4)(a) as to the application for winding-up shall mutatis mutandis apply to an application for a judicial management order.*
>
> *(3) When an application for the winding-up of a company is made to Court under this Act and it appears to the Court that if the company is placed under judicial management the grounds for its winding-up may be removed and that it will*

become a successful concern and that the granting of a judicial management order would be just and equitable, the Court may grant such an order in respect of that company".

The critical measure of whether a company can pay its debt, or is probably unable to meet its debt repayments and thereby fails to become a successful business, is dominant in the qualification for Section 427.

Courts can conclude that a debtor's liabilities exceed the true value of its assets if evidence of commercial insolvency can be found. Such a company will then be factually insolvent. This phenomenon is referred to as the "insolvency rule" (Smart, 2006:17).

The main aim of judicial management is to restore the business to a position where it is able to service its debt obligations. These formal measures do not have any benefits for the entrepreneur but rather they favour the creditors. Nevertheless, creditors place little reliance on these formal measures. Accordingly, Loubser (2005:1) concludes that judicial management has, in general, not been accepted as an effective corporate turnaround procedure, which attributes largely to the stringent requirements (insolvency rule) evident in the old Companies Act (Act 61 of 1973).

From the aforementioned it can be deducted that technical or factual insolvency occurs when the debtor's liabilities in fact exceed the value of its assets (Meskin 1990:2–17). It can be thus be deduced that directors/entrepreneurs are at risk of acquiring personal liabilities if they trade under conditions of insolvency and incur additional debt. Meskin (2004:911) indicates the conditions under which a court of law will consider action against director/s described in Section 424(1) and (3). (Companies Act, Act 61 of 1973), which will be discussed in the next section.

5.2.4 RECKLESS TRADING

Trading under insolvent conditions is regarded as trading recklessly. Section 339 of the Companies Act (Act 61 of 1973) describes conditions of insolvency.

Meskin (2004:666) states, that, if a company is unable to pay its debt, the laws of insolvency will apply. Commercial insolvency occurs when an individual or company is unable to pay its debts when they are due and payable. This is one of the four instances where, according to section 424 (Companies Act, Act 61 of 1973), a director can be held personally liable. Winer, Levestein and Gewer (2005) argue that it is becoming increasingly clear that directors/entrepreneurs need to understand the subtle difference between factual (technical) and commercial insolvency when conducting business.

Section 427(1) states the following: When it appears, whether it be in a winding-up, judicial management or otherwise, that "[w]here any business of the company was or is being carried on recklessly …" the court decides on application of the master, the appointed liquidator, or, any of the creditors of the company, whether any person who was knowingly a party to the carrying on of the business in aforesaid fashion, could be held responsible in their personal capacity.

Section 427(3): "… where any business of a company is carried on recklessly …" with the intent or for the purpose as mentioned in section (1) above, everybody who was knowingly party to the conducting the business in this manner will be guilty of an offence. Obviously it is for the courts to decide whether the director or person is guilty and liable for reckless trading under circumstances of insolvency. It is important to note that proof of a causal link between the relevant conduct and such debts or liabilities is not required.

In the case of *Ozinsky NO v Lloyd* 1992 (3) SA 396 (C) at 413–414, the court (Van Deventer J) stated (at 414): *"… If a company continues to carry on business and to incur debts when, in the opinion of reasonable businessmen, standing in the shoes of the directors, there would be no reasonable prospect of the creditors receiving payment when due, it will in general be a proper inference that the business is being carried on recklessly …."*

The dilemma facing entrepreneurs who are experiencing cash flow distress in their business is how they will obtain additional debt (whether from normal creditors or financial institutions).

Australia has similarly styled legislation with regards to reckless trading under Section 588G of the Australian Corporations Act. The aim of this legislation is to protect creditors from directors' and shareholders' actions that were taken to reduce the probability of them being paid. James, Ramsay and Siva (2004:12) argue that shareholders and directors will be reluctant to perform certain actions that will ultimately harm their reputations. If found guilty of reckless trading, the entrepreneur, as a director, incurs considerable personal liability.

In the case of *Philotex (Propriety) Limited & Others v J R Snyman & Others* 1998 (334/93), the court stated: that *"… when the business of the company has been carried on recklessly, or with the intent to defraud creditors or for any fraudulent purpose, any person who was knowingly a party to such conduct may be held personally liable for the debts of the company…".*

It is therefore very risky to assume (when a business is having cash flow problems) that there is a reasonable prospect that creditors will receive future payments. Attempts by debtors (entrepreneurs) to steer their distressed businesses out of trouble are often regarded by aggressive creditors (usually smaller creditors) as an act of insolvency. The measure mentioned under informal turnarounds above is of interest here, as creditors are quite successful when they approach our courts with an application for liquidation and they can prove acts of insolvency. Entrepreneurs can obviously seek permission to appeal and defend the attack against them, but litigation is a costly exercise to enter into especially where signs of distress are already in evidence.

Section 8 of the Insolvency Act (Act 24 of 1936) describes the eight acts of insolvency. For the purposes of the discussion only the acts of insolvency relevant to turnaround situations will be addressed.

Section 8(c) of the Insolvency Act (Act 24 of 1936) states that if a debtor makes or attempts to make any disposition of any of his property which has or would have the effect of creating prejudice or preference to one creditor above another, he commits an act of insolvency.

Thus, when an entrepreneur (debtor) disposes of any of his property, that is, selling so-called unproductive assets, he may effectively be committing two acts of insolvency. The first is the actual or attempted disposition of any property, which has the effect of preferring/prejudicing creditor/s above another. The second is the actual or attempted disposal of property. Had the attempt been successful, it would have had the effect of preference. Entrepreneurs embarking on this avenue must be aware that the intention with which the disposal was made, or attempted, is of no consequence to the court.

Disposition of assets can be open to attack by the liquidator in a liquidation scenario. Under Sections 26 to 33 of the Insolvency Act Act 24 iof 1936), disposition without value, voidable preferences, undue preferences and collusive dealings are remedies available to creditors.

In addition, Section 8(e) of the Insolvency Act (Act 24 of 1936) states that if a debtor makes, or offers to make, any arrangement with any of his creditors for releasing him wholly or partially from his debts he commits an act of insolvency.

Thus, when an entrepreneur (debtor) enters into an arrangement, which entails the creditors releasing him wholly, or partially, from his debts, it is an act of insolvency. The mere offering to make such an arrangement is also regarded as an act of insolvency. The courts can treat such an arrangement or attempt as an acknowledgement by the debtor that he is unable to pay his debts when they are in fact due and payable.

Section 8(g) of the Insolvency Act (Act 24 of 1936) states that a debtor commits an act of insolvency when he gives notice to any of his creditors that he is unable to pay any of his debts. The written notice to creditors is a practice fairly commonly used by businesses that are unaware of the dire consequences. Meskin (1990:5–99) states that this act is committed when a debtor notifies his creditor in writing that he is unable to pay all, or any one, of his debts. Entrepreneurs asking for time to pay a debt, which is due and payable, need to be aware that this action will give rise to an inference that he is unable to pay the debt.

Section 8 of the Insolvency Act (Act 24 of 1936) states that a debtor commits an act of insolvency as a trader if he gives notice in the *Government Gazette,* in terms of sub-section (1) of Section 34, that he intends selling his business and will thereafter be unable to pay all his debts. Any of the above actions, outside the current legislative provisions, may thus lead to the formal processes of insolvency being implemented. Informal turnarounds are less costly and do not require formal contracts, proceedings or direct compliance.

Creditors, such as banks, can initiate it and, if successfully executed, restore creditor faith in the entrepreneur and business. Trade creditors and financial institutions will, however, be reluctant to extend any form of credit to businesses that are experiencing the above-mentioned distress, purely as a result of the obvious risks involved but also because of the lack of a proper turnaround plan.

Informal turnarounds could benefit the business with immediate cash, but a longer-term solution would be more prudent. Moreover, downsizing the workforce is often contemplated to enable the business to continue. However, this option brings its own problems, as South Africa has some of the most stringent labour laws in the world. Jacobs (2004:125) encourages entrepreneurs to become members of the Confederation of Employers of South Africa (COFESA) in order to obtain support with “legal jargon”.

The Labour Relations Act, Act 66 of 1995, contains very strict procedures that need to be followed before retrenchments can be contemplated. Reducing the workforce can be a costly exercise as the law dictates that severance packages must to be paid. Marè (2004), commenting on Labour Law case law, addresses the issue of retrenchments and concludes that “fair reasons” could exist that justify retrenchments.

The preceding discussion alluded to the more obvious and crucial legislation. Cognisance should, however, be taken of other legislation that will impact on effective turnaround. Other legislation includes the National Credit Act, Act 34 of 2005, the Competition Board rules and corporate governance compliance (King II, and III reports).

Non-enumerable information such as credit information is important, but Altman (1984:180) indicates that for information to be dependable more than one credit source needs to be investigated. The treatment of credit information is addressed in the new National Credit Act, Act 34 of 2005.

Lee (1998:640), in discussing the Korean Crisis, indicates that two elements have contributed significantly to business sector failure: they are the lack of mechanisms to manage corporate governance, and secondly, a too lenient government-led credit allocation policy. The constraints and opportunities clearly suggest that turnaround should be attempted in a period of decline rather than in a period of distress. Chapter 11 of the United States of America's insolvency law provides for a more debtor-friendly approach. It is worth noting that the Canadian Bankruptcy and Insolvency Act (s 50.4(8) 1992) allows for a stay of (moratorium on) proceedings which, in turn, allows the de facto insolvent party to apply to the courts for a stay or extension for the duration of the moratorium.

Rajak and Henning (1999:286*)* observe that

> "… all modern corporate rescues are united on one matter, the absence which, possibly more than anything else, has helped to bring South Africa's judicial management to its present perceived impotence. This is the recognition that the agreed plan by which the future relations between the debtor and its creditors will be governed may well include the reduction of the debtors' overall indebtedness. To insist, as the South African rescue provision does, that a protective moratorium is available only where "there is a reasonable probability that if [the debtor] is placed under judicial management, it will be unable to pay its debts or to meet its obligations" is to ignore the well-nigh universal reality of creditors being prepared, for their own benefit to forgive part of the debt. It is frequently the case that a creditor will benefit far more from having the debtor back in the marketplace than from suing the debtor into extinction. A radically new rescue provision should provide a mechanism under which a specified majority of creditors can approve a plan under which the debtor may emerge from protection and resume normal commercial dealings."

Members of the South African government task team for corporate reform (2004), such as Daly and Burdette, have indicated that the new legislation should demand the removal of the entrepreneur and/or management from the business, as they are perceived as the root cause for the business failure.

This anticipated removal of the current management/entrepreneur highlights the importance for an entrepreneur to be equipped with a turnaround model. Nevertheless, the entrepreneur must understand what events turned prior success into distress and failure. Pretorius (2004:265) points out that the perseverance characteristic must not lead to the entrepreneur being stubborn about his situation.

Under current legislation, entrepreneurs will have to be cognisant of the increased risk when contemplating “informal” turnarounds. Burdette (2004a:20) argues that informal turnarounds are risky by their very nature because no moratorium is granted, and other (normally smaller) creditors cannot be bound by the informal arrangements. Informal agreements or arrangements, which can, in turn, lead to the implementation of formal insolvency proceedings by such creditors, accentuates the need for a change in current legislation that will allow such entrepreneurs adequate leeway to design proper turnaround plans.

Entrepreneurs need to be equipped with extensive, integrated and applied knowledge of early warning signal “verifier determinants” that will enable them to spot the danger signs and empower them to design turnaround plans to save their businesses.

5.3 INTERNATIONAL LEGISLATION

5.3.1 INTRODUCTION

Altman and Hotchkiss (2006:58–78) have done seminal work in comparing the bankruptcy regimens of ten different countries with the United Kingdom and the United States of America. In addition, Rajak and Henning (1999:262–287) have done substantial work in Australia and Canada which has contributed to the background study in formulating South African business rescue law. Franks, Nyborg and Torous (1996:91) compared the United States, the United Kingdom and German insolvency codes and Omar (2006) carried out substantial research with regard to European insolvency laws, specifically Germany, England and Wales, Spain and France. Omar (2006:2) refers to the rescue proceedings of Australia, Canada, France, Singapore, the United States and South Africa as "modern" rescue processes and argues that many other jurisdictions are in the process adapting similar processes. Although

Franks, *et al.* work is dated, it adds to a better understanding of the development of rescue law. In a report on entrepreneurial re-starters, the Boston Consulting Group (2002:16) investigated and commented on re-starter-friendly insolvency regimes. Countries listed were the United States of America, the United Kingdom, France and the Netherlands. These authors identified three factors of influence for recognising a country as re-starter friendly:

- A legislative framework dictating the ease of the entrepreneur's re-entry, manoeuvrability in decline, exit and re-entering of markets.
- Financial environment that dictates the rules of financing of re-starters.
- The social content reflecting on society attitudes towards risk and failure.

In researching the international rescue arena, it is evident that in some countries, the rescue legislation is incorporated in corporate law as is now proposed with Chapter 6 of the South African Companies Act (Act 71 of 2008). In some countries, such as the United Kingdom, rescue proceedings are incorporated in insolvency law.

The question whether to house rescue proceedings in the Companies Act or in the Insolvency Act was also a very salient issue debated by the Companies Act Law Reform Team.

5.3.2 UNITED STATES OF AMERICA

The form of administration in the United States is the infamous Chapter 11 debtor in possession administration, Altman and Hotchkiss (2006:60), according to which an automatic stay is part of the process. Jostarndt and Sautner (2008:2189) argue that the United States of America has a commercial market that is more shareholder (debtor) friendly with poor creditor protection. Last resort action can include write-down of losses on over-indebted companies. Chapter 11 requires reorganisation plans to be filed with the bankruptcy court and these plans are then available to the public (Hubbard & Stephenson, 1997:548). Bower and Gilson (2003:20) raise the possibility that Chapter 11 procedures can be used as a means to hide fraudulent or reckless actions by management and directors. Subsequently, Chapter 11 was amended to remove this possibility. In discussing turnaround plans, Hubbard and Stephenson (1997:549) state that claimants are provided with sufficient information to make informed decisions to assess the plan. The court will only confirm a plan when all the classes of creditors are in agreement with it.

Reorganisations have a cost consequence in terms of direct costing, as well as a substantial social cost. Chen, Weston and Altman (1995:57) criticise the (high) cost of the bankruptcy reorganisation process, while Bower and Gilson (2003:20) argue that the social cost of bankruptcy is “staggeringly’ high. Thus out-of-court restructurings through debt restructuring are suggested to avoid the high cost of Chapter 11 reorganisations.

Chen *et a.l* (1995:67) and Su (2007:33) argue that rights issue offerings appear to be a popular tool for reorganisations. However, debt equity stock swaps are more frequently used, as creditors are able to obtain shares at substantially discounted rates. In discussing the methodology for identifying the characteristics of a successful turnaround, Hespel and Golzgaker (2005:3) define a successful Chapter 11 reorganisation as follows: a successful reorganisation is “defined as emerging from Chapter 11 protection and not filing for bankruptcy for at least four years”. A subsequent merger or acquisition of the “reorganised “company as a result of the fact that it could not sustain itself, will not contribute to the definition of a successful turnaround.

5.3.3 UNITED KINGDOM

Katz and Mumford (2005:136) are of the opinion that the United Kingdom "has a plethora" of insolvency procedures from which a suitable process to follow must be decided. These authors distinguish between administration and administrative receivership as measures for business rescue vehicles. The forms of administration available in the United Kingdom include a company voluntary arrangement, a scheme of arrangement, an administrative receivership and an administration, (Altman & Hotchkiss, 2006:60; Omar, 2006:9). Company voluntary administration was, according to Omar (2006:9), designed to be "a cheap, quick, efficient method of dealing with financial difficulties".

In the United Kingdom a stay of proceedings is sanctioned by the court. Franks and Sussman (2005:283) argue that the main focus when constructing a dynamic model of bankruptcy law is the relationship between law and finance. The law should be considered as a mechanism for standardising commercial agreements. Franks and Sussman (2005:284) distinguish between a hard approach "protecting the liquidation rights of the creditors" and a soft one "giving the company a better chance to reorganise". These authors argue that the court and the legislature will be in a position to solve the problem of under-innovation, but that they are biased towards the protection of private benefits. The treatment of minority creditors when discharging debt by way of a restructuring plan was discussed by Smart (2006:54), who concluded that the interests of minority creditors will have to be protected.

By introducing Chapter 6 of the new Companies Act, the South African legislature has opened the debate on a debtor-friendly versus the historical creditor-friendly regimes.

5.3.4 SWITZERLAND

In Switzerland, the administration takes the form of a composition which is subject to a majority of creditors' and court approval (Altman & Hotchkiss, 2006:72). The rescue plan is subject to creditor approval and court sanction.

5.3.5 BELGIUM

The Belgian form of administration is a judicial composition where the debtor acts in good faith and applies to the court (Altman & Hotchkiss, 2006:72). A restructuring plan is prepared and the approval of 50% of the creditors in value and number is required.

5.3.6 GERMANY

Germany's *Insolvenzordnung,* which came into effect in 1999, created a uniform insolvency statute for all of Germany (Omar, 2006:5). Germany, like South Africa, has traditionally been considered as a country with weak debtor and strong creditor protection. Jostarndt and Sauter (2008:2189) state, however, that German corporations will be actively engaged in turnaround activities well before actual bankruptcy.

In Germany, an insolvency plan (*Insolvenzplan*) is filed and the court appoints an administrator. Altman and Hotchkiss (2006:64) and Omar (2006:8) confirm that the plan is subject to approval by the creditors. There is no automatic stay of proceedings but courts can grant a stay. Distressed businesses are recapitalised by way of fresh equity capital placed in rights issues or private and public placing.

5.3.7 SPAIN

In Spain, insolvency is a prerequisite for proceedings (Omar, 2006:13) and is similar to the current Section 427 of the South African Companies Act (Act 61 of 1973).

The administration of business rescue in Spain takes the form of a court-appointed insolvency administrator (Altman & Hotchkiss, 2006:77). The administrator will prepare reports and plans and there is an automatic stay of proceedings.

5.3.8 SWEDEN

In Sweden, administration takes the form of business reorganisations, which commence with a board resolution and the filing of the resolution at court (Altman & Hotchkiss, 2006:77). An administrator will draw up a plan, which, through an informal agreement, is sanctioned by both creditors and the court.

5.3.9 FINLAND

Finnish insolvency law has been proven to be closely related to Chapter 6 of the new South African Act.

Bergström, Eisenberg and Sundgren (2002:359–372) have researched the Finish law on reorganisations and conclude that the Finnish insolvency regime is a debtor-friendly regime similar to Chapter 11 of the United States. They further argue that if creditors are well secured they will not be supportive of an attempt to reorganise the business (Bergström *et al,.* 2002:360).

5.3.10 ITALY

In Italy, the form of administration deals with three sets of preconditions: *concordata preventive, amministrazione controltta* and *amminstrazione straordinaria*, (composition, and the extraordinary administrative directors control) (Altman & Hotchkiss, 2006:68).

In all three of the aforementioned conditions, the administrator is appointed by the court and is subjected to a rescue plan and approval from creditors. In the first instance there is no automatic stay, but it can be requested. In the last two instances there is an automatic stay of proceedings.

5.3.11 NETHERLANDS

In the Netherlands proceedings lead to the appointment of an administrator by the court. The focus is on the acceptance of a business rescue plan and a stay of proceedings for two months (Altman & Hotchkiss, 2006:88).

5.3.12 FRANCE

Altman and Hotchkiss (2006:64) state that in France administration takes place through the courts, which appoint an expert who will seek an informal and voluntary arrangement (*mandataire ad hoc*). The French rescue process or *sauvegarde* is conceived as being similar to a debtor in possession (Omar, 2006:20) which will then have the inference that management will stay involved. The expert has limited powers, however, and has to work with management. There is no automatic stay of proceedings but the court can specifically order a stay.

5.3.13 CANADA

Corporate restructurings in Canada are governed by either the Companies' Creditors Arrangement Act (CCAA) or the proposal provisions of the Bankruptcy & Insolvency Act (BIA). Known as "Chapter 11 without rules", the CCAA is only available to debtors with total debts of over $5 million (Canadian dollars). The Canadian Parliament has passed acts to reform its bankruptcy and insolvency legislation on, *inter alia*, commercial issues. In short, as discussed by Yamauchi (2006:179), the amendments cater for a debtor-friendly environment where the distressed business's management retain control over the business.

5.3.14 AUSTRALIA

The Australian insolvency provisions are found in Chapter 5 of the Australian Companies Act. These provisions allow for a practitioner to be appointed after a creditor "pool" agrees on voluntary arrangements to be confirmed by order of court. A rescue plan is a requirement and has to be accepted by all parties.

Chapman (2003) deduces that reorganisations or rescues of businesses (in Australia) are being complicated by senior creditors (usually secured) who have a conflict of interest as a result of their secured position, and thereby tend to procrastinate turnaround proceedings.

5.4 DEVELOPING A BANKRUPTCY RULE IN SOUTH AFRICA

South Africa's young democracy is challenged by various socioeconomic variables which require frequent attention. Housing poses a serious challenge but the main focus of government is to create and maintain jobs. From a government perspective, Chapter 6 of the Act is a mechanism to ensure the minimisation of job losses. Government is committed to enhancing legislation to achieve these goals and Chapter 6 is an excellent example.

The United Nations Commission on International Trade (UNCITRAL) and the International Bar Association (IBA) (2000:22) have laid down the key elements of draft legislation as a guideline for countries to follow and implement in their corporate law reform efforts. The South African corporate law reform task team has used these guidelines, together with some principles from INSOL, to draft Chapter 6 of the new Companies Act.

Failure of the current judicial management as a turnaround mechanism prompted the legislature to come up with workable alternatives. A system which allows and extends legal protection to participants in an attempted turnaround was previously markedly absent in South African legislation. Up to the present juncture, legislation did not allow for a stay of proceedings or protection of property interests. With the adoption of the King III corporate governance rules, management are obliged to attempt business rescue before filing for winding up and, as such, rescue legislation had to accept a more debtor-friendly approach.

If directors do not consider or commence with a business rescue when in financial distress, it will in general be a proper inference that the business is being carried on recklessly. In the Grant Thornton Catalyst Management Issues (2005b:5), it is concluded that it is the liability of the directors to ensure that they are fully skilled in managing the affairs of a company.

The question, however, is against what standards are these skills to be measured. Coetzee (2009:4) argues that the most important provision in the new Companies Act is Section 76 where the dispensation of directors' statutory fiduciary duties is addressed under the heading "Standard of director's conduct". Consequently, taking into account all the challenges that have been discussed above, the legislature had the mammoth task of satisfying all role players' requirements and complying with UNCITRAL and INSOL guidelines and principles. The usefulness of these guidelines was highlighted by The Honourable Justice Farley at the Multinational Judicial Colloquium held by UNCITRAL and INSOL (1995:3). The biggest challenge, however, is to move and encourage business South Africa to make the paradigm shift from a creditor- to a debtor-friendly bankruptcy regime.

Chapter 6 of the new Companies Act was largely successful in addressing specific issues:

- creating a debtor-friendly environment
- establishing an environment in which all creditors could cooperate
- creating a moratorium on all proceedings
- setting clear timelines for passing resolutions and cut-offs for compliance
- the introducing of a turnaround practitioner ensures proper management and controls actions that could have adversely affected returns
- all affected parties to agree and commit to a rescue plan
- accorded additional funding priority status

In deliberating the judicial management system with the Van Wyk de Vries Commission, the Masters of the Supreme Court called for the abolition of the judicial management system owing to its low success rate (Burdette, 2004:9).

The option of Section 427 proceedings, by its very nature, does not represent a debtor-friendly environment and is for this very reason rarely a route of choice by entrepreneurs. In this regard, Burdette (2004:4) refers to a point that was originally made by Harmer, namely that “a business rescue regime has a far better chance of succeeding if the insolvency system in which it is applied is debtor-friendly, as opposed to a creditor-friendly system of insolvency where business rescue regimes are not applied successfully”.

Entrepreneurs perceive compromise and/or judicial management of the business as personal failure. For this very reason entrepreneurs are discouraged from actively participating in turnarounds of this nature. Consequently, judicial management has a negative psychological effect on entrepreneurs.

Burdette (2004:11) submits that the following problems exist with judicial management:

- it is seen as an extraordinary measure
- the reasonable probability that the business will become a successful concern
- reliance placed on court proceedings
- the insolvency requirement
- use of liquidators as judicial managers
- it only applies to companies
- the absence of a timeline benchmark detailing specific performance periods adds to the complexities experienced with judicial management.

Based on the problems stated above and the high cost implications for companies already in distress, it can be concluded that entrepreneurs would rather opt for a less expensive and less cumbersome route and attempt an informal turnaround. Informal turnaround plans in various formats are contemplated by businesses in South Africa; Burdette (2004:20) refers to these as "informal creditor workouts" which are being used increasingly in the business environment.

The entrepreneurs themselves, or the senior creditors (mostly banks) who stand to lose the most, usually contemplate these informal turnarounds. James, Ramsey and Livan (2004:32) report on the type of debt distribution in insolvencies in Australia and indicate that bank- or financier-related debt amounts to 7,8% of the total average debt. Unfortunately, in South Africa, no such statistics are available, but the major banks are more involved in pre-insolvency turnaround attempts. The report on South African insolvency legislation by the United States Agency for International Development (USAID), prepared by Johnson and Meyerman (2011:16), concluded that, according to the stakeholders interviewed, “approximately 75% of all businesses encountering financial distress attempt to resolve the problem by informal workout or a turnaround of the business”.

The report further concludes that business or banks, in conducting informal workouts, may adopt methods similar to the London Approach. Bolton (2003:52), discusses the London Approach and states that it has its main application in bank syndicates of informal consortia that attempt to restructure a business’s debt.

Although some measures can be attempted formally, that is, by means of a court order, entrepreneurs frequently attempted an informal approach. Sub-section 32 of the United Nations Commission on International Trade, referred to in its abbreviated form, UNCITRAL Guide (2001:12), mentions that the success rate of informal creditor workouts will be determined to a large extent by the insolvency laws and legal framework of a country. The guide identifies the following avenues for turning a business around: debt forgiveness; debt rescheduling; debt equity conversions; and sale of the business or parts of it. The International Association of Restructuring, Insolvency and Bankruptcy Professionals, referred to in its abbreviated form, INSOL, has suggested that turnaround principles are required to effectively and successfully execute a business turnaround (rescue). These proposed principles are the following:

- All creditors must be prepared to cooperate.
- Creditors should refrain from enforcing claims – agree to moratorium (or standstill).

- Debtors should not to take action to adversely affect returns.
- Creditors should coordinate response to debtor.
- Debtor should provide all information – assets, liabilities, business.
- Proposals for resolving financial distress should reflect applicable law and position of creditors.
- Information should be available to all creditors but treated confidentially.
- Additional funding should be accorded priority status.

In the South African context, Loubser (2005:5) has investigated various turnaround plans and proposes the following two measures as key rescue methods:

- downsizing the workforce
- transferring the business or part thereof.

In an attempt to do an informal turnaround, cost-cutting measures are implemented immediately. Pretorius (2004:281) discusses the following actions to improve short-term cash flow:

- lowering of creditor collection days
- stretching debtor payment days
- increase in cash sales
- negotiating better terms with vendors and suppliers
- reducing debt and interest by:
  - selling old inventory
  - selling unproductive assets
  - selling non-core business units.

These measures are short term in nature and a strategic plan needs to be designed to ensure lasting measures are implemented. Short-term measures are often implemented when creditors call for payment and the business's cash flow cannot meet these demands. The effect of this scenario is discussed later and referred to as "constraints to informal turnarounds".

While informal turnarounds are gaining popularity due to low cost, low profile social responsibility and/or other advantages, there are a number of disadvantages when applied under the current South African laws. The following are Acts that have the potential to be construed as disadvantageous:

- Companies Act: Act 71 of 2008, reference to reckless trading
- Insolvency Act: Act 24 of 1936, reference to acts of insolvency
- Labour Acts: (Various Labour Acts relating to restrenchements) reference to downsizing of labour force

The South African concept of limited liability structures, namely closed corporations and companies, are most frequently under attack from a corporate governance scrutiny. Financial institutions demand personal guarantees from shareholders and members if financial assistance is to be considered. Where no direct sureties are provided entrepreneurs or directors are held personally liable if found to be trading in a reckless manner.

5.5 NEW NATIONAL LEGISLATION: COMPANIES ACT, ACT 71 OF 2008

5.5.1 INTRODUCTION

The literature research on Chapter 6 of the new Companies Act is not an attempt to solicit legal argument as various areas of the Chapter are still being debated by individuals in the legal fraternity and input from business is still awaited. In addition, the regulatory aspects have not yet been concluded. It would, at this juncture, be premature to discuss the various sections from a juristic point of view.

The research was therefore limited to the requirements for a literal interpretation of Chapter 6. The research concentrated mainly on salient provisions that have obvious benefits, or disadvantages, for the entrepreneur and his/her business.

Moosa (2009:1) identifies four distinct advantages of this legislation:

Firstly, business rescue is a substantively non-judicial commercial process whereby a board resolution is passed. Franks and Sussman (2005:287) share this view and conclude that "bankruptcy, namely the course of action to be taken following a default, is a commercial affair". The process is formalised through the filing of the resolution at the court.

It remains the responsibility of the persons affected by the bankruptcy (i.e. shareholders, creditors and employees individually or through their representative trade unions) to formulate contributions to a business rescue plan in order to save the company.

Secondly, business rescue is an inclusive and consultative process involving all affected persons as well as a business rescue practitioner (who will be a qualified professional, experienced in turnarounds, as per the regulatory directives of the new Companies Act).

Thirdly, the new Companies Act allows a stay of legal proceedings during business rescue, through the allowance of a limited moratorium period.

Fourthly, the legislation allows for the company to be rescued and the likelihood of the company's continued existence on a solvent basis to be maximised. If the continuation of the company cannot be achieved, it provides a better return for the creditors or shareholders than would result from the liquidation of the company.

In certain respects the structured, formal process proposed in the Act is not dissimilar to the typical negotiated rescue proceedings conducted informally when major creditors of a distressed company act together to reach a commercial solution to rescue the company.

Judging from the above there is clear benefit in the broader notion of business rescue. Unfortunately, as is the case with most new legislation, the devil lies in the details. An assessment of some of these challenges forms the basis of this paper.

5.5.2 FINANCIAL DISTRESS

An understanding of the phrase "financial distress" is of utmost importance in future commercial action. Chapter 6 of the new Companies Act clearly defines two criteria for financial distress, that is, "unable to pay its debts" and "become insolvent", but, most importantly, it adds a six-month period in which these events can most likely take place. This is the opposite of the judicial management requirement, where a business must be insolvent before Section 427 (old Companies Act, Act 61 of 1973) can be applied. A complete copy of Chapter 6 of the new Act is attached under Appendix C. Chapter 6 of the new Companies Act supplies a clear definition of financial distress, which reads as follows:

> **Section 128(1)(j)** *"… financially distressed'', in reference to a particular company at any particular time, means that it appears to be reasonably unlikely that the company will be able to pay all of its debts as they fall due and payable within the immediately ensuing six months; or it appears to be reasonably likely that the company will become insolvent within the immediately ensuing six months..."*

Chapter 6 of the new Companies Act is structured into five main sections which guide the reader to a fair understanding of the total intended scope of this chapter of the Act.

They are:

- business rescue proceedings
- the practitioner's functions and terms of appointment
- the rights of affected persons during the rescue proceedings
- the development and approval of the business rescue plan
- compromise between company and creditors.

As each topic has its own measure of importance these aspects are discussed under their own headings.

5.5.3 RECKLESS TRADING UNDER THE NEW COMPANIES ACT

The new Companies Act has adopted the same tough stance on reckless trading as is currently applicable, but has added more regulations which must be adhered to. Various sections of the new Companies Act refer to trading under reckless circumstances and strict adherence to corporate compliance rules is of utmost importance. Section 22 of the Act prohibits reckless trading.

This important section reads as follows:

> **Section 22(1)** *… A company must not— carry on its business recklessly, with gross negligence, with intent to defraud any person or for any fraudulent purpose; or b) trade under insolvent circumstances … .*

If the company's board has reasonable grounds to believe that the company is experiencing financial distress as defined by the new Companies Act, it has the responsibility to adopt a resolution to institute rescue proceeding in terms of Section 129(1) of the Act, which reads as follows:

> *Subject to section (2)(a), the board of a company may resolve that the company voluntarily begin business rescue proceedings and place the company under supervision … .*

If the business experiences financial distress or insolvent trading, or is likely to trade under these conditions within the next six months, and the board does not adopt a Section 129(1) resolution, the provisions of Section 129(7) must be introduced. Section 129 (7) reads as follows:

> *… if the board of a company has reasonable grounds to believe that the company is financially distressed, but the board has not adopted a resolution contemplated in this section, the board must deliver a written notice to each*

> *affected person, setting out the criteria referred to in Section 128(1) (e) that are applicable to the company, and its reasons for not adopting a resolution contemplated in this section … .*

A clear distinction must be made between financial distress and reckless trading, as Chapter 6 of the new Companies Act is not an instrument for avoiding the ramifications of reckless, fraudulent or any other misconduct.

The mandate of the turnaround practitioner must include investigating the matters of the business in order to establish the precise conditions under which the business has been conducted. Section 141 reads as follows:

> *… as soon as practicable after being appointed, a practitioner must investigate the company's affairs, business, property, and financial situation, and after having done so, consider whether there is any reasonable prospect of the company being rescued. And,*

> *… reckless trading, fraud or other contravention of any law relating to the company, the practitioner must- so inform the court, the company, and all affected persons in the prescribed manner, and- forward the evidence to the appropriate authority for further investigation and possible prosecution … .*

If any misconduct (excluding conduct of a criminal nature) is evident in the management of a business the court may, in terms of section 164(7)(b)(ii), make an order to place a person under probation.

The exception to this rule is to be found under Section 162(7)(b)(ii), *"… except in terms of—a business rescue plan resulting from a resolution of the board in terms of Section 129; or a compromise with creditors in terms of Section 155 …".*

5.5.4 BEGINNING, DURATION AND ENDING OF BUSINESS RESCUE

Out of court business rescue proceedings start when a company resolution is filed at the court. The company resolution is taken by the board of a company, when the board is of the opinion that the business is experiencing financial distress according to the definition in Chapter 2. Any affected party can apply through the court to commence with business rescue and rescue proceedings will commence when the order is granted.

Section 128 of Chapter 6 of the new Companies Act describes the affected parties as

- shareholder or creditor
- trade union
- employee/s not represented by trade union.

After the adoption and filing of the resolution the company must publish a notice of the resolution and appoint a turnaround practitioner. The qualifications, minimum requirements and regulatory issues are still being debated by both government and business and consequently have been excluded from the literature discussion.

> **Section. 129(3**) *… Within five business days after a company has adopted and filed a resolution, as contemplated in section (1), or such longer time as the Commission, on application by the company, may allow, the company must-publish a notice of the resolution, and its effective date, in the prescribed manner to every affected person, including with the notice a sworn statement of the facts relevant to the grounds on which the board resolution was founded: and*
>
> (c) *appoint a business rescue practitioner who satisfies the requirements of Section 138, and who has consented in writing to accept the appointment… .*

Business rescue proceedings end when the court sets aside the resolution or rescue order and the turnaround practitioner files a notice to the effect that the rescue proceedings have been terminated. However, from the outset the rescue proceedings will not be implemented if it is obvious that the rescue plan will be rejected. The commencement of a business rescue and the timeline that needs to be adhered to is illustrated in figure 5.1. The left-hand side of the figure illustrates the turnaround practitioner's operational and strategic functions, while the second horizontal column relates to a board resolution and the third column to a court order for business rescue commencement. Timelines are indicated in the applicable vertical columns. Strict adherence to the set timelines is vitally important, as non-adherence could jeopardise the entire process and cause unnecessary delays. The success of a turnaround is primarily dependant on the swiftness with which it is executed.

5.6 LIABILITIES OF THE TURNAROUND PRACTITIONER

5.6.1 LIABILITY OF LEGITIMACY

The appointment of a turnaround practitioner and the delegation of powers to the turnaround manager takes place as per Section 129(3)(b), which reads as follows: "*... appoint a business rescue practitioner who satisfies the requirements of Section 138, and who has consented in writing to accept the appointment."*

The above quote refers to Section 138, which stipulates when a practitioner is qualified to act as a practitioner. This section of the new Companies Act is currently being revisited by the Department of Trade and Industry and all interested parties have submitted comments and suggestions. The final requirements will be adopted and published by government in due course.

Section 138 stipulates that a person who may be appointed as a practitioner to a distressed company should be *"... a member in good standing of a profession* *subject to regulation by a regulatory authority …," "… is not subject to an order of probation …" , ".does not have any other relationship with the company …" and is "… not related to a person who has the relationship …"* (illustrated in fig. 4.2).

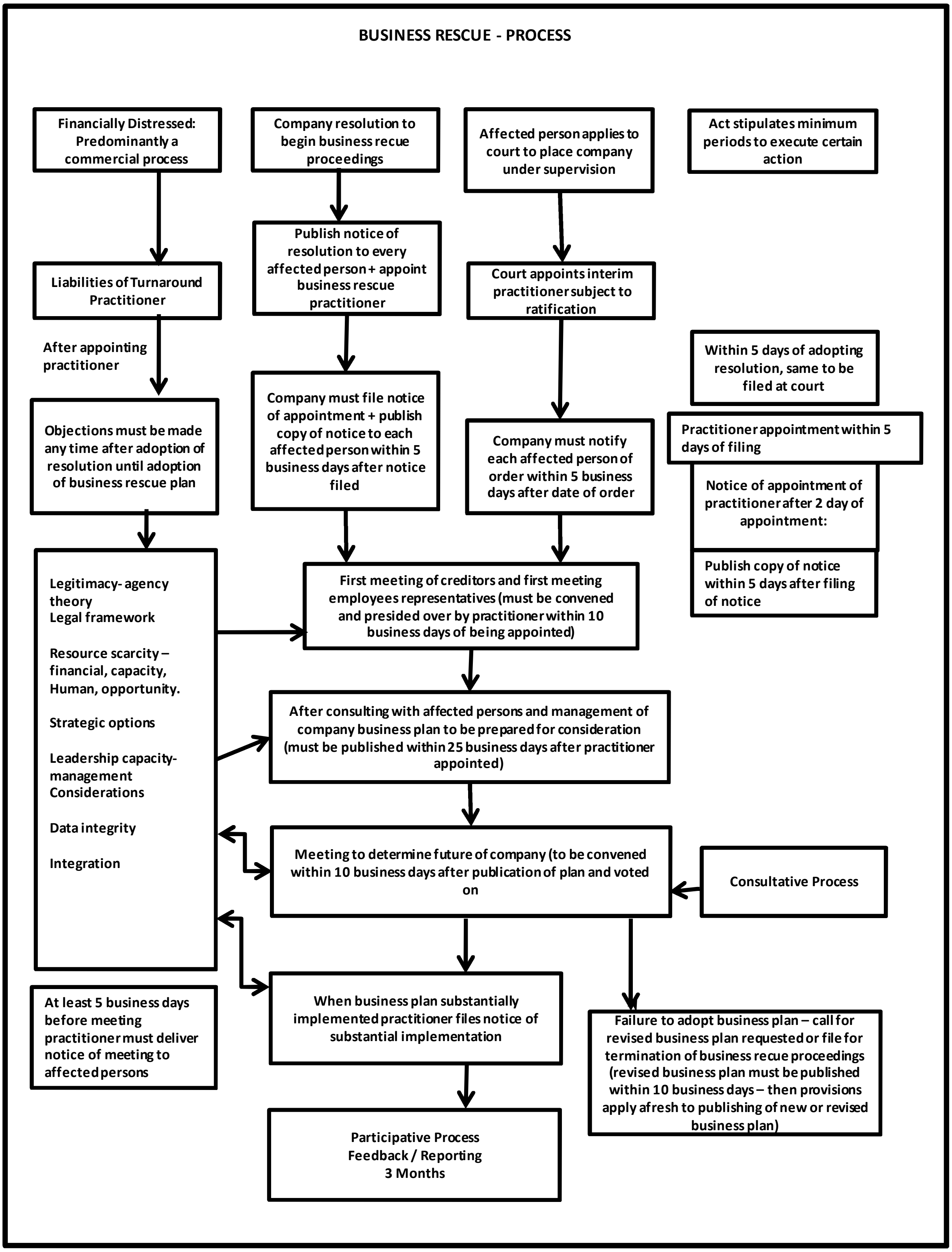

Figure 5.1 Section 129 rescue process timeline (adapted from Samuelson, 2010)

5.6.2 LIABILITY OF LEADERSHIP

According to the principles of the agency theory (Eisenhardt (1989a:58), the agent (practitioner) is conferred with a leadership role by the board (principal). Chapter 6 is unambiguous in terms of the practitioner's leadership liability. This section of the new Companies Act is also an admonition to business concerning the quality and experience required from a practitioner when considering his/her appointment.

> **Section 137(2)** *During a company's business rescue proceedings, each director of the company must continue to exercise the functions of director, subject to the authority of the practitioner;*
>
> *(h) has a duty to the company to exercise any management function within the company in accordance with the express instructions or direction of the practitioner, to the extent that it is reasonable to do so;*
>
> **Section 137(3)** *During a company's business rescue proceedings, each director of the company must attend to the requests of the practitioner at all times, and provide the practitioner with any information about the company's affairs as may reasonably be required.*
>
> **Section 137(5)** *At any time during the business rescue proceedings, the practitioner may apply to a court for an order removing a director … .*
>
> **Section 140(1)** *During a company's business rescue proceedings, the practitioner, in addition to any other powers and duties; has full management control of the company in substitution for its board and pre-existing management; may delegate any power or function of the practitioner to a person who was part of the board or pre-existing management of the company; has the responsibilities, duties and liabilities of a director of the company, and, direct the management … .*

At the start and for the duration of a business turnaround, the directors of the company must cooperate with and give assistance to the turnaround practitioner.

5.6.3 LIABILITY OF DATA INTEGRITY

Data integrity is most certainly the most important liability to address in the early stages of a turnaround attempt. Verification and authentication of data is, under any circumstances, a time-consuming process and the strict timelines imposed by Chapter 6 of the new Companies Act do not allow for the investigation process to be procrastinated in a turnaround situation.

The liability of data integrity is highly dependent on the turnaround manager's ability to apply the correct methodology to verify and authenticate data for decision making. The most important decision to make is whether to attempt the rescue/turnaround. This decision should include turnaround activities after the decision to turnaround has been taken.

> **Section 142(1)***… each director of a company must deliver to the practitioner all books and records that relate to the affairs of the company … .*

> **Section 142(2***)... any director of a company who knows where other books and records relating to the company are being kept, must inform the practitioner … .*

> **Section 141(1)** *...after being appointed, a practitioner must investigate the company's affairs, business, property, and financial situation, and after having done so, consider whether there is any reasonable prospect of the company being rescued.*

> **Section 150(3)** *… The projected balance sheet and statement required by sub-section (2)(c)(iv), must include a notice of any material assumptions on which the projections are based; and may include alternative projections based on varying assumptions and contingencies … and then, the most onerous requirement.*

> **Section 150(4)** *… a proposed business rescue plan must conclude with a certificate by the practitioner stating that (any) actual information provided appears to be accurate, complete, and up to date; and projections provided are estimates made in good faith on the basis of factual information and assumptions as set out in the statement … .*

5.6.4 LIABILITY OF STRATEGY OPTIONS

In order to achieve a successful turnaround, a turnaround practitioner must realign company strategy. Chapter 6 of the new Companies Act incorporates a few demanding prerequisites for the practitioner's strategic abilities.

Section 141 dictates that as soon as the turnaround practitioner has complied with the liability of data integrity, he needs to "… *consider whether there is any reasonable prospect of the company being rescued.*

As part of assessing and realigning the strategic direction of the company, the practitioner is allowed under Section 132(2) of the new Companies Act to either *"… subject to Sections 35A and 35B of the Insolvency Act, 1936 (Act No. 24 of 1936), despite any provision of an agreement to the contrary, during business rescue proceedings, the practitioner may cancel or suspend entirely, partially or conditionally any provision of an agreement to which the company is a party at the commencement of the business rescue period, other than an agreement of employment …".* Or, in terms of Section 137, contemplate as part of the business rescue plan, alterations to the classification or status of securities. Solomon and Boltar (1998:26) argue that Section 136(2) has potentially drastic consequences. The words "cancel" and "suspend" are not explained and reliance has to be placed on their common, literal meaning.

A key part of a strategic approach is the drafting of a business plan. Section 140(1)(d) requires the drafting of a rescue plan and its implementation. Section 150 stipulates the minimum requirements for a business plan.

Most important is that in terms of Section 150(1), *"… the practitioner, after consulting the creditors, other affected persons, and the management of the company, must prepare a business rescue plan for consideration and possible adoption…".*

Once again the liability of data integrity is clearly illustrated by Section 150(2): *"… the business rescue plan must contain all the information reasonably required to facilitate affected persons in deciding whether or not to accept or reject the plan … ."*

The rescue plan therefore has to be considered by all affected persons and, after it has been accepted, the practitioner must see to its implementation.

The practitioner has the responsibility to inform all affected parties in terms of Section 141 that if *"… at any time during business rescue proceedings, the practitioner concludes that— there is no reasonable prospect for the company to be rescued…" and, "… apply to the court for an order discontinuing the business rescue proceedings …".*

5.6.5 LIABILITY OF RESOURCE SCARCITY

Resource slack is arguably the key determinant of both decline severity and the options for turnaround strategies chosen in response. Pretorius and Holtzhauzen (2005:95) conclude that resource munificence refers to the level of resources (scarcity or abundance) required to operate a venture successfully. Castrogiovanni (1991:542), on the other hand, defines resource munificence as the critical resources needed to operate a business. The liability facing the turnaround practitioner in maintaining adequate resources while responding to decline is often problematic as Section 134 imposes restrictions on the disposal of assets. During the period of financial decline assets are "stripped" in order to generate much needed cash and this process destroys the business's resources over time. This phenomenon is confirmed by Barker and Duhaime (1997:20).

Protection of property interests

> **Section 134.** *Subject to sub-sections (2) and (3), during a company's business rescue proceedings—(a) the company may dispose, or agree to dispose., of property only in the ordinary course of its business; in a bona fide transaction at arm's length for fair value approved in advance and in writing by the practitioner; or in a transaction contemplated within, and undertaken as part of the implementation of, a business rescue plan that has been approved in terms of Section 152 … .*

Funding of the turnaround attempt is of the utmost importance. Early detection and engagement will allow the practitioner to align his strategy with resource scarcity. Levinthal (1991) refers to declining organisational capital as the most important determinant of business mortality. Accordingly, turnaround can only be effectively executed if the minimum threshold for organisational working capital is met.

Pretorius and Holtzhauzen (2008:96) conclude that the level of a business's resources at the time of the turnaround attempt will affect the financially distressed business's capacity to "implement strategic change". The dilemma facing entrepreneurs, who are experiencing cash flow distress in their business, is how they will obtain additional debt (normal creditors or financial institutions). As described in Section 135, post-commencement funding may be secured and such funding will be paid in order of preference.

Burdette (2004c:422) argues that a clear distinction needs to be drawn between the cash that will be needed to continue trading until a plan is approved and the cash flow that will be generated out of the operation once the plan is accepted and implemented. It is envisaged that the leading creditor bank will assume the responsibility for funding these interim periods as well as post-commencement finance.

The interim period financing will be included in the securitisation, labelled "post commencement finance", only if it happens after the resolution has been filed.

> **Section 135(2)** *… During its business rescue proceedings, the company may obtain financing other than as contemplated is sub-section (1), and any such financing—(a) may be secured to the tender by utilising any asset of the party to the extent that it is not otherwise encumbered … .*

5.6.6 LIABILITY OF INTEGRATION

To overcome the liability of legitimacy the turnaround practitioner will ensure the integration of the turnaround actions and the support of all stakeholders or affected persons. All the affected persons will have to be included in strategy formulation in order to create some slack to free up working capital for funding the turnaround. Sections 145 and 147 describe the participation process by creditors:

> **Section 145(3)** *… The creditors of a company are entitled to form a creditors' committee, and through that committee are entitled to be consulted by the practitioner during the development of the business rescue plan … .*

> **Section 147(1)** *… Within 10 business days after being appointed, the practitioner must convene, and preside over, a first meeting of creditors, at which-(a) the practitioner must inform the creditors whether the practitioner believes that there is a reasonable prospect of rescuing the company; and (ii) may receive proof of claims by creditors; and (b) the creditors may determine whether or not a committee of creditors should be appointed and, if so, may appoint the members of the committee … .*

The new Companies Act ensures that all affected parties are included and provision is made for shareholders and employees, or their representatives, to attend rescue meetings. Overcoming the liability of integration culminates in the finalisation of the rescue plan as determined under Section 140(1)(d) of the Act: *"… develop a business rescue plan to be considered by affected persons … ."*

Overall knowledge of the proposed cash-generating strategies is essential in determining the future of the business, leading management to implement the rescue plans on a wide set of disciplines suggests overcoming the liability of leadership. Decisions of this nature will depend on the verification and authentication of the data used in the decision-making process, thereby overcoming the liability of data integrity.

The real danger of undetected and/or undisclosed data is that it is an unknown factor which only surfaces after a turnaround has commenced.

Section 151(1) determines that the practitioner must convene a meeting of creditors and other affected persons, as well as holders of voting interests as described by the Act, for the purpose of assessing and considering the proposed rescue plan.

5.7 CONSIDERATION OF A BUSINESS TURNAROUND PLAN.

The aforementioned literature research confirms that in almost any debtor-friendly bankruptcy regime, the prerequisite is the drafting, evaluation and acceptance of a business rescue plan. The UNCITRAL Guide (2005:7) defines the turnaround or reorganisation plan as “a plan by which the financial well-being and viability of the debtor’s business can be restored”. Under Chapter 6 of the new Companies Act, the business plan is discussed with a clear directive of what issues are to be addressed.

> **Section 152(5)** *the company, under the direction of the practitioner, must take all necessary steps to (a) attempt to satisfy any conditions on which the business rescue plan is contingent; and (b) implement the plan as adopted.*

Development and approval of the business rescue plan is the primary task of the practitioner, who, after consulting the creditors, other affected persons and the management of the company, must prepare a business rescue plan for consideration by the stakeholders.

The business turnaround plan must contain all the information required to assist stakeholders in deciding whether or not to accept or reject the plan. Chapter 6 divides the turnaround plan into three distinct sections:

Part A – Background which must include at least a

> *… complete list of all the material assets of the company, as well as an indication as to which assets were held as security by creditors when the business rescue proceedings began; a complete list of the creditors of the company when the business rescue proceedings began, as well as an indication as to which creditors would qualify as secured, statutory preferent and concurrent in terms of the laws of insolvency, and an indication of which of the creditors have proved their claims; the probable dividend that would be received by creditors, in their specific classes, if the company were to be placed in liquidation; a complete list of the holders of the company's issued securities; copy of the written agreement concerning the practitioner's remuneration; and a statement whether the business rescue plan includes a proposal made informally by a creditor of the company … .*

Part B – **Proposals** which must include at least

> *… the nature and duration of any moratorium for which the business rescue plan makes provision; the extent to which the company is to be released from the payment of its debts, and the extent to which any debt is proposed to be converted to equity in the company, or another company: the ongoing role of the company, and the treatment of any existing agreements; the property of the company that is to be available to pay creditors' claims in terms of the business rescue plan; the order of preference in which the proceeds of property will be applied to pay creditors if the business rescue plan is adopted; the benefits of adopting the business rescue plan as opposed to the benefits that would be received by creditors if the company were to be placed in liquidation; and the effect that the business rescue plan will have on the holders of each class the company's issued securities … .*

Part C – Assumptions and conditions, which must include at least

> *… a statement of the conditions that must be satisfied, if any, for the business rescue plan to come into operation; and be fully implemented; the effect, if any, that the business rescue plan contemplates on the number of employees, and their terms and conditions of employment: the circumstances in which the business rescue plan will end: and a projected— balance sheet for the company; and statement of income and expenses for the ensuing three years, prepared on the assumption that the proposed business plan is adopted … .*

Benade, Henning, Du Plessis, Delport, De Koker and Pretorius (2003:4) highlight the importance of all the South African Acts impacting on the entrepreneurial venture. The prerequisites of the following Acts are also of importance when constructing the turnaround plan in terms of Section 140 and are used as a frame of reference:

The Insolvency Act, Act 24 of 1936

The Insolvency Act is in the process of being redrafted to align insolvency law and practice with Chapter 6 of the new Companies Act, Act 71 of 2008.

The Income Tax Act, Act 58 of 1962

Income tax seldom comes into play in a turnaround situation, as assessed losses are a feature of a business experiencing financial distress. The realignment of a business's structure can, however, be tax beneficial. Section 44 to 46 of the tax act addresses unbundling, amalgamations and de-grouping (Fluxman 2009:292–330).

Labour legislation

The various Acts governing labour in South Africa are listed below. These Acts, in one form or another, influence the treatment of labour in a turnaround situation. Labour and organised labour are included in the new Companies Act as affected persons but a good working knowledge of the following Acts is a prerequisite for constructing a rescue paln:.

- Basic Conditions of Employment Act 75 of 1997

- Labour Relations Act 66 of 1995
- Employment Equity Act 55 of 1998
- Skills Development Act 97 of 1998
- South African Qualifications Authority Act 58 of 1995
- Broad-based Black Economic Empowerment Act 53 of 2003

The process for determining the actual state of affairs of the business is not discussed in the new Companies Act and no directive on methods to be used to determine the feasibility of continuing with the business is given.

Various methods for turning a business around are available to turnaround practitioners, but it is suggested that a combination of methods will, depending on the prevailing circumstances, be most effective.

A due diligence process comprises the following:

- feasibility assessment with stress testing
- forecasts
- sustainability after rescue process
- corporate governance
- data integrity
- simulations, such as Monte Carlo simulation.

The various methods are addressed in more detail in chapter 8 (of this study) where turnaround modelling is suggested. Although the new Companies Act is not prescriptive on the method used to ascertain the state of affairs, it is quite clear on the minimum requirements of forecasts required in the rescue plan.

Section 150(2)(c) Part C outlines the financial forecast requirements in the proposed plan and Section 150(1) to (5) dictates the minimum requirements for a business rescue plan. It is submitted that, when constructing the plan, all the affected persons will not be sophisticated or skilled enough to make a workable input. This problem adds to the turnaround practitioner’s liability impediment.

The practitioner, after consulting with the creditors, other affected persons and the management of the company, must prepare a business rescue plan for consideration and possible adoption. The new Companies Act is clear on the content required for the rescue plan and divides the requirements into three parts, namely, background, proposal and assumptions and conditions.

5.8 SUMMARY

It will take the South African courts some time to adjust to the proposed new way of treating bankruptcy. Franks and Sussman (2005:385) tested the levels of innovations in the United Kingdom courts after rescue law reforms and concluded that they have taken a substantial period of time to bed down. The literature review confirmed the following similarities between the various debtor-friendly regimes:

- rescue is seen as part of a business process
- a clear process for commencing with business rescue is evident
- a person is appointed who is responsible for the turnaround process
- a turnaround plan is central to all turnaround options and has to be sanctioned by creditors.

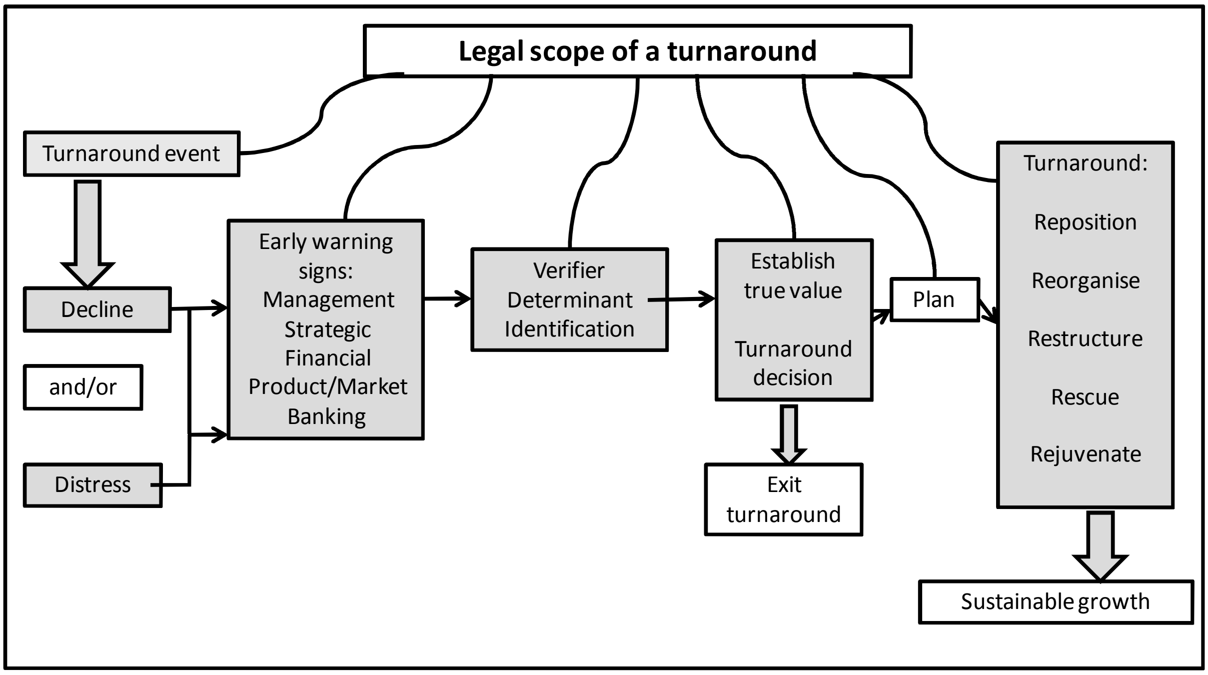

Figure 5.2- Legal impact on turnaround process flow

It is envisaged that the same process will play itself out in South Africa as Chapter 6 of the new Companies Act is tested in our courts. What will be of interest is how business is going to react to the debtor-friendly regime. Figure 5.2 illustrates the overall importance of the legal impact on the turnaround process.

As happens with the introduction of any new legislation, a great deal of speculation has already been reported on by the South African media, with mixed reviews on the viability, potentially problematic areas and the overall probability of success of Chapter 6 of the new Companies Act.

CHAPTER 6

Research methodology

6.7 Data

6.7.1 Data collection

6.7.1.1 Data measurement and instruments

6.7.2 Data analysis and interpretation

6.7.3 Factor analysis

6.7.4 t-Test

6.7.5 ANOVA

6.7.6 Validity and reliability

6.7.7 Wilcoxon

6.8 Conclusion

CHAPTER 6
RESEARCH METHODOLOGY

"There are seven key signs that may indicate you are in trouble: declining sales, reduced market penetration, falling margins, thin earnings before income taxes, high employee turnover rate, increasing customer complaints and high-level employee defection. If you checked off one of these key indicators, you need to dig deeper."

McRann (2005:38)

6.1 INTRODUCTION

The concept of verifier determinants is to confirm the existence of problems within the business or the business environment. Environmental scanning units seem to be unable to respond to what Ansoff (1975:25) calls "weak signals". Stubbart (1982:143) concludes "we have too many places to look and too few theories of how significant environmental change can be linked to the business's plans".

The previous chapters shaped the foundation for an academic framework. In order to achieve the research objective of identifying verifier determinants, various opinions of the role players in a business environment must be presented.

The ideal research design will be of such a character that it articulates to all the role players (bankers, entrepreneurs, creditors, consultants and courts) in the performance cycle, as illustrated in figure 6.1. The performance cycle incorporates four performance areas of importance: underperform, decline, distress and failure.

The aim of this chapter is to explain the research problem and the objectives of the study and to give some background for the case selection and questionnaire design. Reasons for selecting the methods used to gather data for the empirical analysis will be explained.

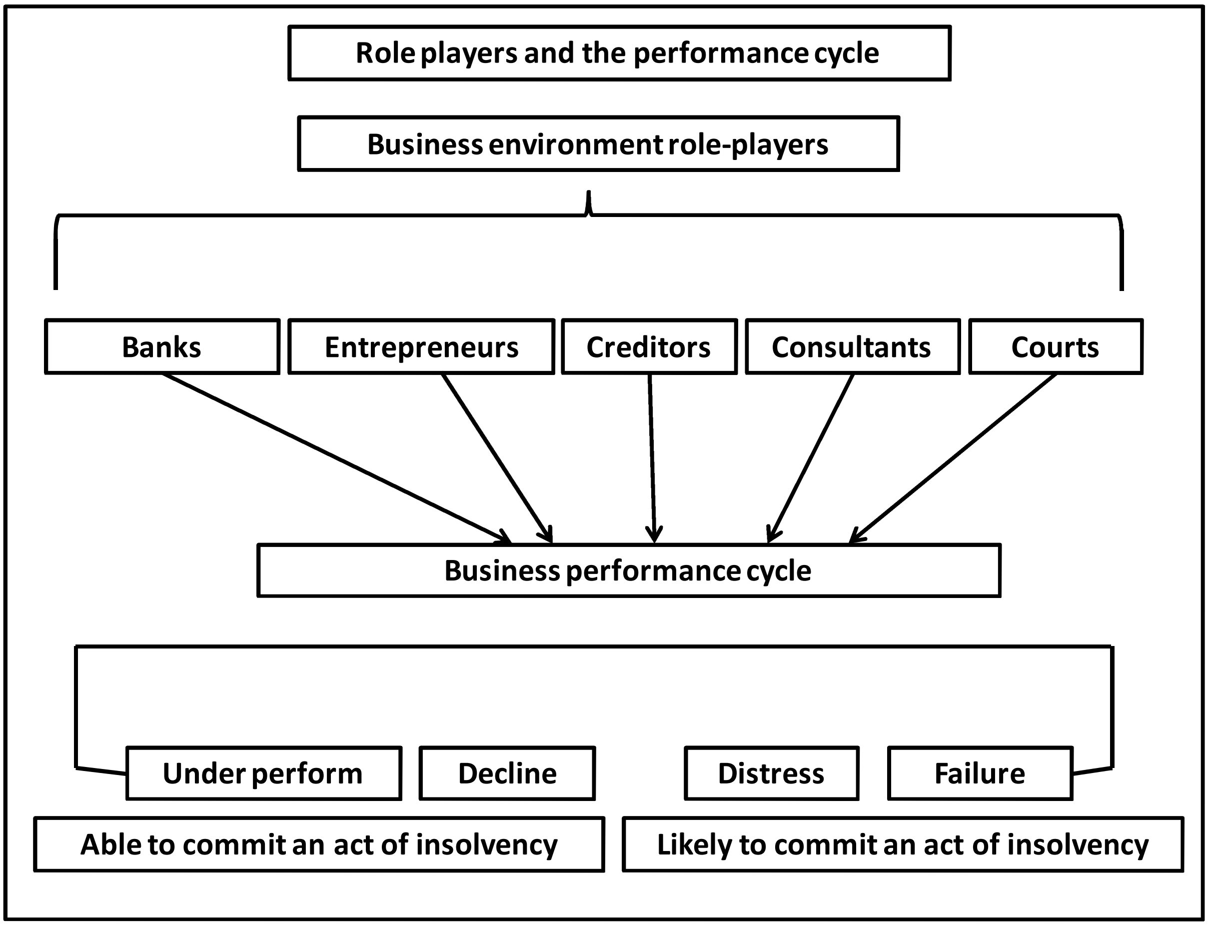

Figure 6.1 Interaction between role players and the performance cycle

Cooper and Schindler (2003:13) maintain that good research generates dependable data, which are derived from investigative practices that are conducted and recorded professionally. They also suggest that "methodology" refers to the theory on the research undertaken and the various steps taken to ensure the dependability of the data. These would be systematic, detailed and transparent. They postulate that research must be driven by ethics to ensure credibility. According to Mouton (2001:56), research methodology focuses on the “individual steps” that make up the processes and procedures to be engaged. Of importance is that while methodology consists of these various methods, techniques and principles, it must be borne in mind that they are interrelated. Thus "methodology" is not only concerned with the manner in which information is acquired, but fundamental to this is the type of study being undertaken. Mouton (2001:122) summarises this when he concludes that research methodology describes the research procedure as including the overall research design, the plan or structure and the sampling procedures, the data collection, the field study methods and the analysis procedures.

This chapter explicates the research approach to the study design and methodology. Various research methodologies were used to ensure the validity and reliability of data sets used.

6.1.1 PROBLEM DEFINITION

Cooper and Schindler (2003:69) argue that in formulating the research problem, the first step will be to identify and fully describe the management dilemma and translate the dilemma into a management question. According to Welman and Kruger (2004:12), the research problem refers to some conjectural or practical difficulty for which a resolution is desired. The research problem of this study is clearly formulated in section 1.7.

Problem: There are few or no guidelines for entrepreneurs on "verifier determinants" to confirm early warning signs and the specific turnaround faced by a venture.

The South African government, through the Department of Trade and Industry (DTI), directly endorsed business rescue by the introduction of the new Companies Act. This clearly indicates that the DTI is adamant about "getting it right". In actual fact, however, the Act is still subject to amendments and testing by the courts.

In this study, the focus of the problem is:

- **The absence of guidelines (verifier determinants) to confirm early warning signs**
- **The absence of verifier determinants to assist in the specific turnaround situation**

This study intends to have the following outcomes:

- Identify main categories of early warning signs
- Identify verifier determinants linked to each category.

6.1.2 OBJECTIVES OF THE RESEARCH STUDY

6.1.2.1 Primary objective

- To identify and theoretically define early warning “verifier determinants”
- To design and include “verifier determinants” as an integral part of a turnaround framework that supports corrective action.

6.1.2.2 Secondary objectives

- To research the current formal turnaround practices for “verifiers”, which are applied in the United States of America, Canada, Australia and Africa and the informal practices evident in South Africa. These findings are aligned so as to include the changes in the applicable South African legislation.
- To design a framework for use by turnaround practitioners and entrepreneurs alike.
- To identify which verifier determinants will prompt the early warning signs to become visible, and apply this outcome to the design of a reliable turnaround framework that is accepted by all creditors and financial institutions.
- To contribute to the South African entrepreneurial, turnaround fraternity, and future formal studies in this academically ill-represented field.

6.1.3 PROPOSITIONS

Cooper and Schindler (2003:50) note that a "proposition" is a statement about observable phenomena that may be judged as "true" or "false". A proposition is called a hypothesis if it is formulated for empirical testing.

As a declarative statement, a hypothesis is of a tentative and conjectural nature (Cooper & Schindler, 1998:43). It was decided that research propositions would be used in this study rather than hypotheses, leading to an ex post facto study. The reason for this decision is that the data gathered by means of conducting personal interviews and gathering questionnaire responses are explanatory in nature. Conclusions drawn from the analysis will be more meaningful if approached from a pragmatic point of view, since no other model of the same nature exists. The study is very relevant and important, as South Africa is now entering the business turnaround field and a Rubicon change from a creditor-friendly to a debtor-friendly regime. The investigation ultimately aimed to provide a solution to the question whether to attempt a turnaround or not. The research also contributes to the elimination of Type 1 or Type 2 errors. In order to find these answers the research process in this study follows the path depicted in figure 6.2.

6.1.4 LITERATURE RESEARCH

Literature on turnarounds in developing countries such as South Africa is almost non-existent. Understandably, turnaround practitioners protect their strategies as intellectual property.

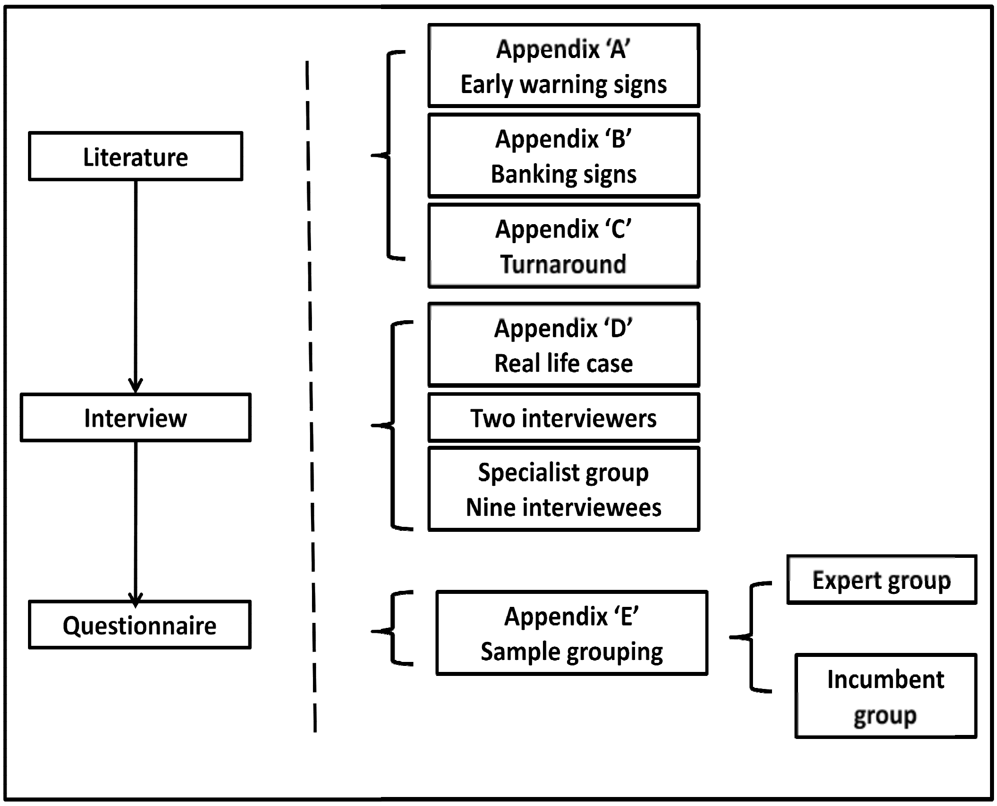

Figure 6.2 Broad research flow

The literature search in this study involved all scientific resources from the ABI-Inform, Ebsco-host, Proquest, ScienceDirect, Blackwell and other databases for titles published since 1985. For major works, the date was not a limitation, especially when an article was referenced widely. Age of publication was also not considered important, but relevance and contribution to the body of knowledge on failure prediction, early warning signs and turnaround strategy were paramount.

Each article was scrutinised for confirmation of concepts, as well as additional concepts and variances under different conditions and contexts. When analysed, this research identified key concepts using grounded theory research, which were divided into three main categories: firstly, "early warning signs" (see Appendix A), secondly, banking signs (see Appendix B), and lastly, turnaround strategies (see Appendix C), illustrated by figure 6.2.

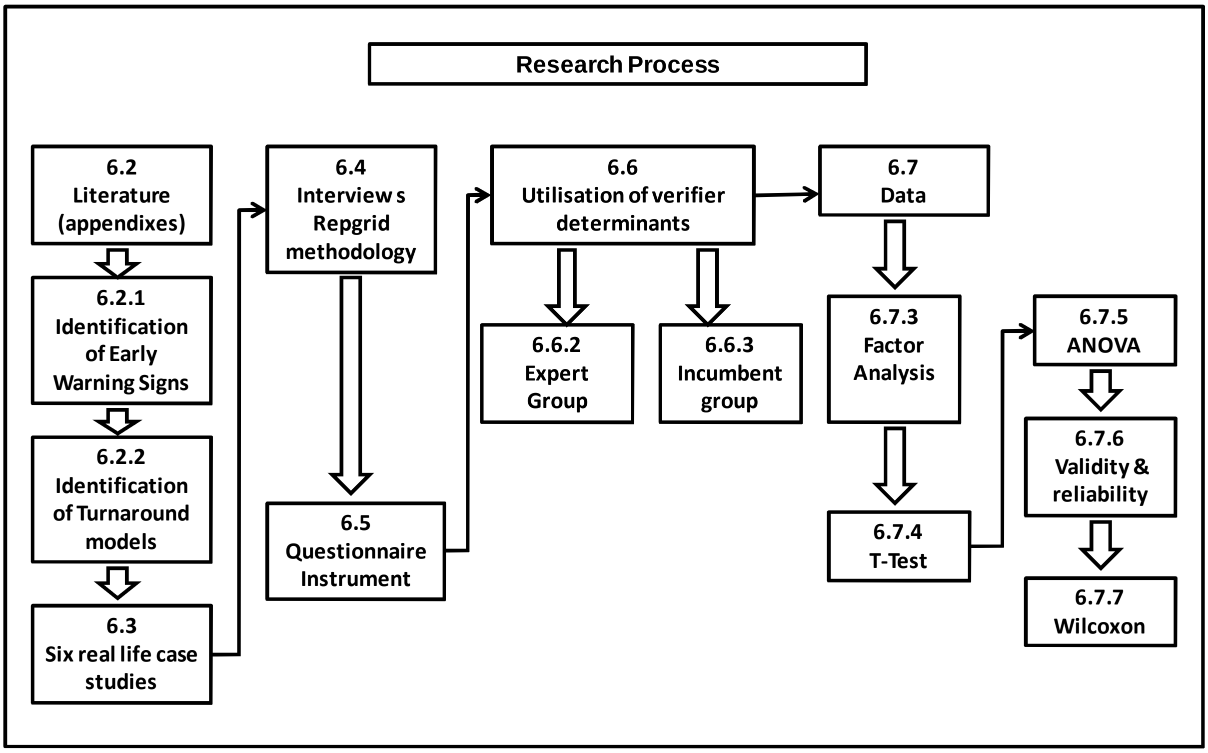

Figure 6.3 The detailed research process of this study

Figure 6.3 illustrates the flow of this chapter, starting with the literature research, then the interview process and, finally, the questionnaire design and instrument. The statistical analysis flow concludes the process.

6.1.5 IDENTIFICATION OF EARLY WARNING SIGNS

Early warning signs (see Appendix A) are regarded as all types of event in business that point to the potential demise of that business (refer to the definition of "early warning signs" arrived at in section 3.2). Warning signs are portrayed in various ways, as problems, challenges and poor performance indicators. Authors, such as use their own explanation, phraseology or designation when referring to early warning signs. This literature research classified early warning signs, in much the same way as Pousson (1991), into the following categories:

- financial warning signs identified by ratio analysis
- business and operational warning signs, such as administration, market and product analysis

- managerial signs, such as strategic value add and behavioural analysis
- banking signs, which are closely linked to behavioural signs
- other, behavioural signs.

The warning signs and their classification were tested and confirmed in the interview process (section 6.4).

6.1.6 IDENTIFICATION OF TURNAROUND STRATEGIES

Owing to the diverse sources of literature available, it was firstly deemed necessary and prudent to categorise secondary data sources into various key sources. Secondly, various practices and models that were regarded as being of assistance in compiling a South African entrepreneurial approach to rescue/turnaround were investigated.

After reading and analysing the abstracts of the articles, those papers that discussed turnaround-related issues were selected and tabled in Appendix C. Each article was assessed, and the key concepts identified and reported. Subsequently, concepts were categorised into sub-domains (categories) of turnaround-related issues and reported on individually. As the categories became clearer, each individual article was further explored for its key contributions.

Initially rejected articles were subsequently re-evaluated for potential contributions to the sub-domains, based on the new insights gathered from the process. During the grounded research process, the research identified conceptual linkages to use for categories. Then these steps were repeated until the key constructs ultimately crystallised. Eventually, a list of key references was assembled (see Appendix C). Finally, a conceptual framework for classifying the turnaround structure that was identified is proposed. Every article was scrutinised for confirmation of these concepts, as well as for additional concepts and variances in terms of the different turnaround approaches.

The most salient strategies, frameworks, steps and processes are highlighted in this study, during which the research concentrated on the process flow, strategies and execution of turnaround strategies. All literature containing the words “rescue”, “turnaround”, “restructure”, “reorganisation”, “renewal” and “realignment” was identified within the context of turnaround management. The literature was summarised into the five distinct phases associated with the literature search. These are depicted in Appendix C as follows: investigative, planning, strategic, financial and operating phases.

6.1.7 SAMPLE SELECTION FOR THIS STUDY

The following sections provide details of the sample frame, the sample size, the sampling method used and the response rate. Diamantopoulos and Schlegelmilch (2000:10) describe a sample as “ a part of something larger”. Parasuraman, Grewal and Krishnan (2004:357) define "sampling" as the selection of a fraction of the total number of units of interest to decision makers for the ultimate purpose of being able to draw conclusions about the entire body of units.

This fraction is then known as the "sample", which Cooper and Schindler (2003:179) argue is part of the "target population", hence, the part or sample is carefully selected to represent that population. For the purposes of this study three groups were purposely selected. They are portrayed in table 6.4.

Table 6.1 Group categories

DEMOGRAPHIC	SPECIALIST	EXPERT	INCUMBENT
BANKING EXPERIENCE	20 Years	12 Years	5 Years
JOB FUNCTION EXPERIENCE	15 Years	10 Years	5 Years
AGE	40+ Years	30+ Years	20+ Years
QUALIFICATIONS	Post graduate degree and diploma	Graduate and diploma	Graduate
MANDATE	Ultimate directional mandate	Limited directional mandate	Advise decision makers

Note that the specialist group and the expert group are not the same, but consist of two distinct groups.

The 'specialist group' consists of banking industry specialists. An industry specialist can be described as an experienced banker with at least fifteen years' experience in the credit risk field, equipped with a relevant postgraduate qualification and mandated within the organisation to make decisions resulting in significant directional change in business such as turnaround. These individuals have been exposed to many informal turnaround situations during their tenure in these positions.

The 'expert group' consists of senior credit and credit risk incumbents in leadership roles within the organisation. An expert can be described as an experienced banker with at least ten years' experience in the credit risk field, equipped with a relevant postgraduate qualification and a limited mandate within the organisation to make decisions resulting in significant directional change in business such as turnaround. The expert group differs from the specialist group in that it has less experience and exposure to the business restructuring field.

The 'incumbent group' consisted of managers in the credit environment who have had exposure to the credit risk environment.

A manager is an experienced banker with at least five years' experience in the credit risk field equipped with a relevant graduate qualification and not mandated (higher authority will make final decision but this group can advise/propose direction) within the organisation to make decisions resulting in significant financial management change in a business. The incumbent group differs from the specialist group as it has less experience (5 years) and exposure to the business restructuring field.

6.2 SIX REAL-LIFE CASES

For the purposes of this study, real-life business profiles were used. The real-life cases comprised a stratified random selection drawn from existing businesses in a commercial banking environment. The businesses were geographically spread throughout South Africa and the selection was not limited to one province only. The choice of cases was of the utmost importance to ensure that selection bias was ruled out. Research was conducted in an organisation with a comprehensive database of business data, which made it relatively easy to randomly select the sample of real-life cases with three Basel rating categories.

6.2.1 CHOICE OF ORGANISATION

For this study, one of the leading commercial banks was selected as the organisation of choice, owing to the accessibility of information, research data and participants. For selecting case studies, the researcher relied on businesses that were already subjected to Basel II Accord categorisation criteria. For clarity on the Basel II Accord, a short explanatory discussion is required (see chapter 3 section 3.4). This research chose to select case studies with an in-depth longitudinal character. Cases were selected at random, ensuring that they had a couple of years' historical financial and other relevant data. This was important to ensure equal representation of the selected cases.

Research was conducted in an organisation with a comprehensive database of business data, which made it relatively easy to purposely select a sample of real-life case studies. Figure 6.4 illustrates why a banking institution is appropriately placed to conduct this study. In a turnaround situation, a commercial bank is 'both ways exposed', as the bank is a key component to any turnaround attempt, be it informal or formal. The pivotal role of the commercial banks in an informal attempt to turn a business around is a well-debated topic and the mere existence of the INSOL principles and the London Approach bears testimony to this. In order to protect the organisation, the business and individuals, all names, references to names, addresses and anything that could lead to the organisation being identified were removed. In protecting the real identity of the businesses in terms of the critical data, such as financial statements, trends, management structures, history and actual events, all references to the actual businesses and individuals involved were either removed completely and/or given pseudonyms. This approach ensured that the case study maintained its real-life character.

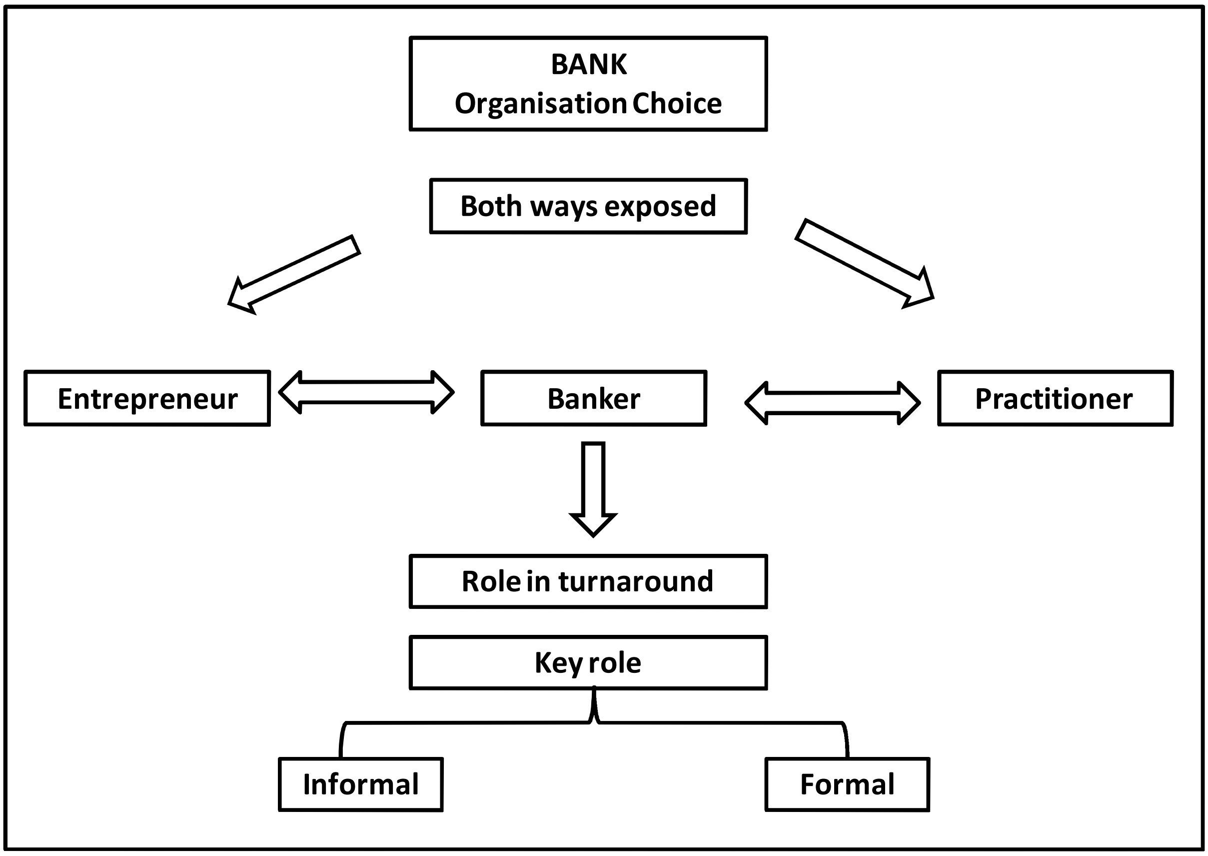

Figure 6.4 Structure informing the appropriate case selection

6.2.2 CASE SELECTION FOR THIS STUDY

Figure 6.5 illustrates the research design which comprised two phases: phase 1 comprised the case selection and the interview process, and phase 2 the questionnaire and field study process.

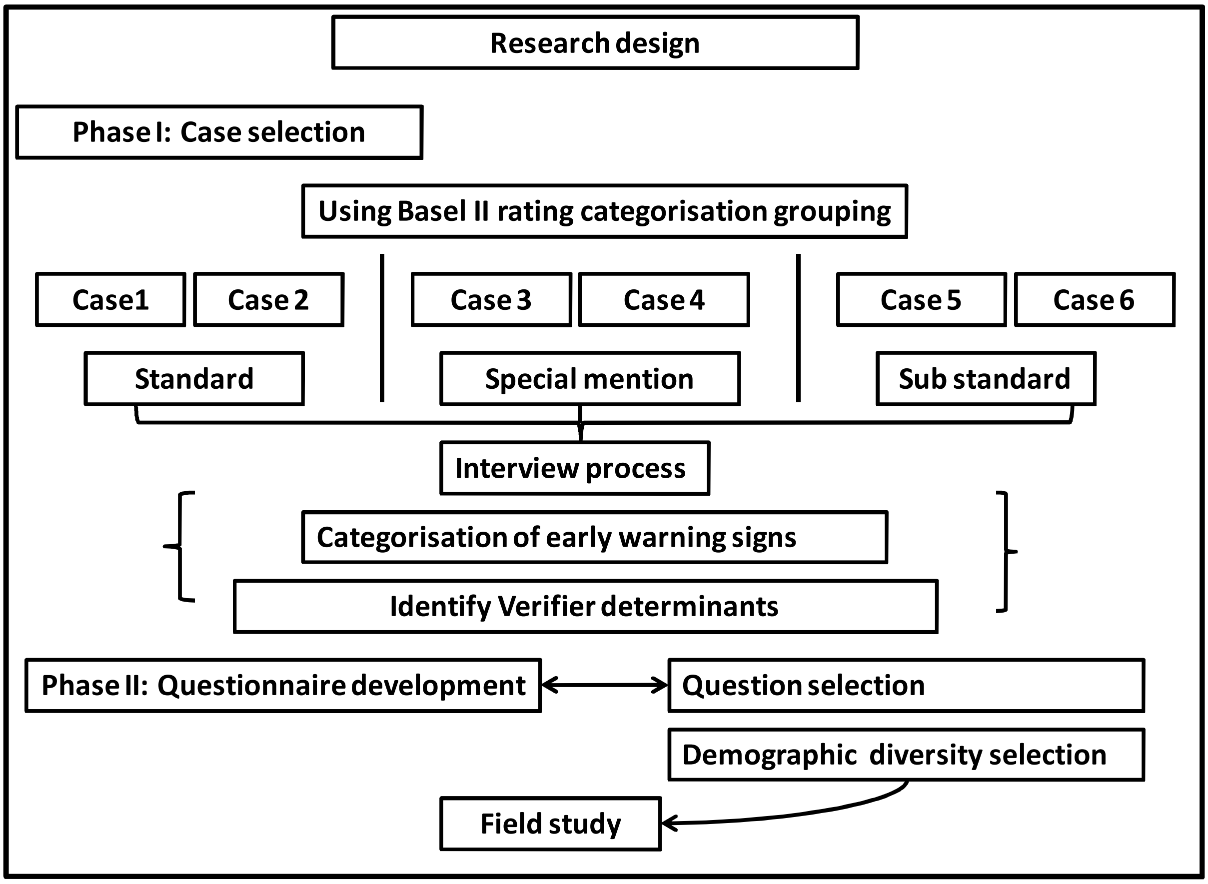

Figure 6.5 Research design showing stratified case selection

The Basel II risk rating was used in selecting two cases in each category. Within each case, the following information was obtained from the business:

- Curricula vitae of managerial staff
- Historical files consisting of
  - business background
  - management succession
  - market and product
  - staff growth and considerations
  - changes in industry type and business model
- Three years' audited financial statements to establish growth
- Cash flow projections.

Table 6.2 provides the demographic details of each of the cases selected for this study. The business cases are categorised into industry type, legal style, annual turnover, year of the latest financial information available, Basel II rating and, finally, age of the business in years. The primary aim of the case research linked and the interview process was to establish the perceptions of specialist management in identifying early warning signs, causes and verifiers determinants as risk factors. An example of one of the cases used in this study is available in Appendix D.

Table 6.2 Case demographics used in this study

CASE SELECTION DEMOGRAPHICS							
No	CASE IDENTIFICATION	TYPE	STYLE	ANN T/O	YEAR	BASEL II RATING	AGE YEARS
1	CASE A Kwa-Zulu Natal	Cable Management and Structural Support Specialist	Company Propriety Limited	105,718,000	2006	Standard	3
2	CASE B Limpopo	Transport & Civil Construction Sand Excavation & Washing Property owning and letting	Company Propriety Limited	91,200,000	2006	Standard	11
3	CASE C East Cauteng	Motor trade. New and second hand dealership, farming	Company Propriety Limited	157,239,000	2006	Special-mention	5
4	CASE D Western Cape	Coating, impregnating and laminating of foam and textiles. Convertors of textiles and non-woven fabricks for the footwear, motor and allied industries.	Company Propriety Limited	96,552,000	2005	Special-mention	11
5	CASE E Gauteng	Specialise in import and sale of Continental Fish and Delicacies	Company Propriety Limited	69,000,000	2005	Sub-standard	37
6	CASE F Gauteng and Free State	Transport, Logistics and warehouseing	Closed Corporation	137,000,000	2006	Sub-standard	28

6.3 INTERVIEWS – REPGRID METHODOLOGY

6.3.1 INTERVIEW WITH PARTICIPANTS

An interview has the benefit of direct, face-to-face interaction, so any ambiguities can be clarified and explained in real time. The interview process was used to identify the main constructs of early warning signs.

Cooper and Schindler (2003:43) assert that a "construct" is a grouping of specific concepts for expressing a specific issue or reality under discussion. As the rationale for this stage was to ensure the optimum exploration of the specialists' knowledge and past credit experience (specialist cognitive survey); the research followed a case learning process followed up with a structured interview. According to Wright (2006), much can be learnt from the thinking of senior management on how they see, make sense and interpret their experiences. During the interview, the abstracts of the relevant case were analysed and those concepts that in fact represented early warning sign and verifier determinant issues were identified.

The interview process required a high level of interaction between the researcher and participants. This interaction was a significant prerequisite for proper understanding of the case under study and to clear data of all ambiguities. The interview process was based on the repertory grid method developed by Kelly in 1955, (Feixas, & Alvarez (2006)). This method was preferred above a conventional rating scale questionnaire, as it allows the interviewee to provide unique insights into constructs t`hat are topic related. Consequently, the research design for this study entailed selecting cases with an in-depth longitudinal character. Cases were selected purposely, ensuring that they complied with the minimum requirements and other relevant data (see section 6.2). This was important to ensure equal representation of the cases selected. However, the critical data, such as the financial statements, trends, management structures, history and actual events, were not altered and factual events are presented in each case. This approach ensured that the cases maintained their real-life character. Each selected case was then discussed, and key concepts were identified and reported.

Concepts were categorised into sub-domains (categories) of early warning sign- and verifier determinant-related issues and reported individually, together with their specific contributions. As the categories became clearer, each individual case and interviewee insight was further explored for its key contributions. If the interviewees required any guidance during the interview process, this was provided by asking a series of leading questions. It was found that participants were relaxed when answering the questions since they were based on their field of expertise.

It is believed that these positive interview conditions led to unbiased conclusions being drawn from the managers' discussions of their perceptions and experience.

During the interview process, the interviewers looked for the conceptual linkages to be used for the various categories. These steps, questioning, clarifying and re-questioning, were followed during the interview methodology, where steps are repeatedly executed until the key constructs were ultimately crystallised. After the sixth interview, the interview process drifted towards a conclusion, as very little additional 'useful new information' was obtained; this was in accordance with the guidelines for the interview process. After the ninth interview the process ended.

This meant that the actual number of interviews became less important than initially anticipated when embarking on the study. In order to find patterns in the data, this research used the principles of neural networks to model relationships between inputs and outputs in the chosen environment. The research focused on a philosophical and cognitive analysis.

6.3.2 INTERVIEW PROCESS

As was indicated previously, the interview process was based on the repertory grid method. Sampson (1972:79) argues that the repertory grid is a technique used to identify the ways a person gives meaning to his or her experience. According to Gaines and Shaw (2005:5–2), the repertory grid method consists of four constructs: a topic, a set of elements, a set of constructs and a set of ratings of the elements and constructs.

This method was preferred above a conventional rating scale questionnaire as it allows the interviewee to provide unique insights into constructs, which are topic related. The interviews were designed around real-life cases, which were determined by the method described in section 6.3. The results were tested against a comprehensive secondary literature research(see section 6.2.1 and Appendix A).

6.3.3 INTERVIEW PREPARATION

Industry specialists with practical experience were identified in the target organisation (a commercial bank) and these specialists were selected to participate in the case study. Three case studies were selected at random for each specialist, which resulted in each participant having a sample in which at least two of the main categories of Basel II rating are represented. The case studies were distributed to the participants two weeks prior to the scheduled interview. During this period the interviewees were requested to prepare themselves adequately for the interview process. This preparation was estimated to take at least three hours. The interviewee was then invited to an interview and encouraged to bring the case studies and all preparatory notes with them.

In this study, the last three interviews proved to contribute the same information as the previous six interviews, with no new information being forthcoming, which suggested that nine interviews were enough.

Eisenhardt (1989b:545)

The estimated time allotted for the interview was four hours, although first interview took four and a half hours to complete. However, as the interviewers gained experience in the interview process, the time spent on the interviews was reduced. Subsequently, the average time per interview was calculated at three hours forty minutes. Refer to Appendix D for a copy of the letter and case example sent to the interviewee.

In order to keep the interview process unbiased, the interview content, such as the process to be followed and questions to be asked, was not disclosed to the participants prior to the interview. Interviewees were also reassured that there would be total anonymity and that the results would only be used for the research project.

6.3.4 IDENTIFICATION OF VERIFIER DETERMINANTS

Table 6.3 depicts the interviewer record sheet used during the interview. The three cases were identified on the sheet as case A, B, or C. The repertory-grid choice as to which two cases differ from the other one is clearly indicated in the column 'link'.

Table 6.3 Case study interview record sheet

CASE INTERVIEW RECORD SHEET				
Case	Link	Key constructs identified	Main EWS category identified	Verifier deteminant identified
A				
B				
C				
Comments				

The interviewee's cognitive experience and knowledge of the business case was then recorded in the other three columns, the key constructs were identified, the main early warning sign category was identified and subsequently, most importantly, the verifier determinant was identified. This record sheet was used to annotate every discussion topic and/or interview question asked.

6.3.5 THE INTERVIEW PROTOCOL

The interviewers asked a series of questions to lead the conversation (Cooper & Schindler: 2003:325), for example:

In your opinion,

- which two cases are more similar (compared to the other one)?
- what early warning signs did you observe?
- why is the one different from the other two?
- what caused the signs?
- how did you verify the existence of the sign/cause?
- what is the main differentiating construct/s?
- does this construct fall into the category of an early warning sign or a verifier determinant?
- the case which was not selected – why was it not selected?

The constructs and early warning signs were subjected to rigorous interrogation. Interviewers focused the interviewee using additional questions to ensure that early warning signs, causes and verifiers were discussed. The result was a clear understanding of early warning signs in practice and the process identified a set of verifier determinants, which was informed for the resulting questionnaire.

6.4 QUESTIONNAIRE INSTRUMENT

The results obtained from the interview process, and building on the literature review, formed the basis of the questionnaire design (Appendix D). In order to ensure completeness, this study has been documented, firstly, in terms of the personal interviews based on the cases, and secondly, a questionnaire/or empirical testing.

The raw data from the questionnaire responses were analysed using SAS and BMDP1 software and included descriptive statistics, factor analysis, a t-test of significance, and the analysis of variance.

6.4.1 QUESTIONNAIRE DESIGN

The questionnaire was designed around the constructs determined by the interview process with the group of specialists. These results were reciprocally confirmed by a comprehensive secondary literature research (see section 6.2.1 and Appendix A). A comprehensive questionnaire was developed aimed at credit practitioners in the organisation. This resulted in a high level of agreement with the specialists, drawing from their experience and learning and based on a set of cases.

Saunders, Lewis and Thornhill (2007:362) postulate that questions can be distinguished in terms of "opinion", "behaviour" and "attribute", and this influences the way in which questions are worded. According to these authors, "opinion" variables record how respondents "feel" about something or what they "think" or "believe" is true or false. In contrast, data on behaviours and attributes record what the respondents "do" and "are".

The purpose of the questionnaire was to:

- involve the participant
- draw conclusions on managers' perceptions of warning signs and their evaluation of risk profiles
- establish respondents' use of verifier determinants.

The questionnaire (Appendix F) was broken up into two major sections: a demographic categorisation section (questions 51 to 60) and the actual Likert scale questions (Appendix F, questions 1–50). Questions 1 to 50 were intended to identify individual variables associated with each of the factor constructs identified by the literature and the interviews.

The questions in the questionnaire were derived from

- the primary objective of the research
- the specialist cognitive survey and the literature review on business failure and early warning signs.

Thus, the sections of the questionnaire centred on the outcomes of the two-tier preparatory research.

The questionnaire was sent to each manager in the incumbent group together with a covering letter. The letter requested them to participate fully and there is little doubt, although this cannot be verified except on the basis of the response rate, that the respondents participated voluntarily.

6.4.2 DETERMINATION OF VALUES FOR THE QUESTIONS

Cooper and Schindler (2008:308) rightly point out that the Likert scale has "in-built summated rating" and that the data are interval data, as illustrated in table 6.4.

Table 6.4 The summated Likert scale used in this study (adapted from Cooper & Schindler, 2003:308)

Strongly disagree	Disagree	Agree	Strongly agree
1	2	3	4

The reason a four-point scale was chosen lies in the fact that it forces the direction of the response. A four-point scale was preferred over a five-point one that gives an option of “unsure”, as this was unwarranted in this study. A neutral option was underirable in the anticipated small sample. The 4 point scale allowed convertion scales into nominal scales.

The participant was asked to respond to each question by ticking the appropriate box. Each of the boxes is given a numerical value to reflect its degree of attitudinal favourableness and the scores may be totalled to measure the participant's opinion. Cooper and Schindler (2003:253) contend that between 20 and 25 well-constructed questions will be required for a reliable Likert-scale result. This study contained 50 questions to allow for the elimination of non-loading or double-loading variables in the factor analysis.

6.4.3 PILOT TESTING THE QUESTIONNAIRE

Preliminary questionnaires were sent to five managers in the credit and credit risk environment who were selected at random from the list of business units available in the organisation. The responses from the pilot test indicated that the respondents understood the questionnaire and that it therefore did not need further editing.

6.5 DETERMINATION OF VERIFIER DETERMINANTS

Fraenkel and Wallen (2005:38) emphasise the fact that dependent variables are those that the researcher chooses to study in order to assess the impact of other variables on them. The independent variable in this study is a dichotomous variable consisting out of an incumbent group and an expert group. The dependent variables comprised the verifier determinants (constructs), each with its contributing variables.

6.5.1 SAMPLING METHODS AND RESPONSE RATE

The sample of credit risk incumbents was selected purposely. Certain criteria applied in the selection process, making it a judgemental sample. In this case, the criterion was that incumbents selected as respondents had exposure to the credit environment. This is an example of non-probability sampling.

Cooper and Schindler (2003:201) also confirm that the use of purposive sampling is appropriate for this type of research.

Possible challenges that could have arisen while conducting the research included the following:

- Several research projects were launched simultaneously, which could have influenced the respondents' attitude to the research. (Moreover, the target institution experienced an unexpected and unplanned 'takeover' threat after the research commenced.)

- Questionnaire fatigue could have played a role in the total responses received.

- The research occurred mainly in the one banking institution to which the researcher had access.

- The questionnaires were not area coded, consequently, there could have been response bias, as one of the areas in the sample may have had proportionately more responses than another.

The above challenges could have an influence on the response rate.

6.5.2 EXPERT GROUP

6.5.2.1 Identification

The expert group consisted of experienced senior bankers with at least ten years' experience in the credit risk field with a relevant postgraduate qualification and a limited directional mandate for making decisions resulting in significant directional change in business, such as turnaround.

The fifty verifier determinants were subjected to the questionnaire process and the replies from the expert group were grouped in terms of five factors, which subsequently formed the independent variables from which data was drawn so that statistical inferences could be made. The dependent variable is referred to as the verifier determinant group.

6.5.2.2 Sample frame

The expert group sample frame consisted of senior credit risk experts in specifically related functions within the business.

6.5.2.3 Sample size

In this research, nine out of a possible 12 credit expert practitioners were willing to participate. Thus, a response rate of 75% was obtained, which was deemed adequate for the research.

6.5.3 INCUMBENT GROUP

6.5.3.1 Identification

The incumbent group consisted of managers in the credit environment who have had exposure to the credit risk environment. An incumbent is an experienced banker with at least five years' experience in the credit risk field who is equipped with a relevant postgraduate qualification, but is not mandated by the organisation to make decisions resulting in significant financial management change in a business.

6.5.3.2 Sample frame

The sample frame of credit risk practitioners included those practitioners who are currently working in business units in the field of credit risk.

6.5.3.3 Sample size

In this research, 200 out of a possible 245 credit risk incumbents fitted the criteria and hence a sample size of 200 was decided on. The 200 practitioners selected are trained and employed in the credit and credit risk division.

6.6 DATA

Before dealing with the units of analysis, it is important to find support for and to justify the form of research undertaken, as it influences the selection of the units of analysis. Babbie (2005:94) asserts that although it is useful to differentiate between types of research, most studies use several of them as they often converge.

Types of research include the explanatory, predictive, descriptive, exploratory and reporting approaches. Owing to the research resources available, this research is primarily focused on the explanatory approach and is accompanied by descriptive aspects. The research methodology described below provides details of the data required for the study and the methods used in collecting the data.

6.6.1 DATA COLLECTION

Blankenship and Breen (1993:122) state that there are certain fixed guidelines as to which methods a researcher should use for collecting primary data, the most important of which is that the researcher must collect data as accurately as possible. The most popular methods for data collection are usually observation, the interview and the questionnaire although these three methods are not necessarily mutually exclusive and can be interrelated. However, the questionnaire is the centrepiece of data collection as it stands on its own and the interview can be used as a basis for the other forms of data collection. In-depth interviews with the specialists formed the basis for the questionnaire development and design.

6.6.1.1 Data measurement and instruments

Parasuraman *et al.* (2004:266) define "measurement" as the assigning of numbers to responses based on a set of guidelines. They believe that this has two potential benefits: "First, one can summarise quantified responses from a sample more efficiently and economically. Secondly, it enables the manipulation of quantified responses by using a variety of mathematical techniques to get to a desired result."

The results then require different levels of measurement and interpretation which will also apply to the data. When measuring data, nominal, ordinal, interval and ratio data are considered owing to their unique characteristics. In this study, the four-point scale resulted in interval data that could be treated as ratio data during analysis.

6.6.2 DATA ANALYSIS AND INTERPRETATION

Diamantopoulos and Schlegelmilch (2000:63) note that a careful re-examination of the overall aim of the research provides an excellent point of departure for developing analysis objectives. The overall formulation, it can be argued, is also influenced by, among other issues, whether the data is univariate, bivariate or multivariate. Subsequently, the responses to the completed questionnaires were processed by the researcher. Data analysis includes checking the data for comprehensiveness and consistency. Welman and Kruger (2004:201) concur that one of the first tasks in analysing data is to formulate some kind of theoretical statistical model. They postulate that the selection of the appropriate statistical methods and/or software is dependent, among other things, on the level of measurement. The statistical analysis for this research, using SAS software, was performed by the Department of Statistics at the University of Pretoria.

6.6.3 FACTOR ANALYSIS

Exploratory factor analysis was used for interpreting the data in this research. Cooper and Schindler (2003:562) assert that when the variables that are being analysed are interrelated, some being dependent and others independent, then factor analysis is appropriate for analysing the data. In fact, Cooper and Schindler (2003:11) posit that factor analysis is one of the techniques applicable in multivariate analysis where many variables are involved. In this instance, there were fifty potential variables and thus this technique was used because the overall research is multivariate. There are several approaches to factor analysis and, in this instance, the model used was the maximum likelihood method. Kim and Mueller (1978:9) and Cooper and Schindler (2003:613) agree that factor analysis identifies patterns or underlying combinations in variables as potential factors. Thompson (2004:5) makes the point that there are two forms of factor analysis: confirmatory and exploratory. In this instance, exploratory factor analysis, as argued by Kim and Mueller (1978:9), was used as the factors were assumed to be “not known”.

Factor analysis is used for data reduction when patterns can be recognised in developing specific constructs. This occurs when there are too many variables and some reduction could benefit the exercise, with variables that belong together being grouped into factors. Kim and Mueller (1978:9) are incisive and insist that factor analysis is based on the fundamental assumption that some underlying factors, which are smaller in number than the number of observed variables, are responsible for the co-variation among the observed variables. Cronbach's alpha coefficients, which measure the reliability of a factor, are produced as a result of factor analysis. In this study, a Cronbach's alpha value of greater than 0,7 was an indication that the items within a factor are reliable and measure the same underlying construct.

6.6.4 TEST OF SIGNIFICANCE (t-TEST)

The t-test interrogates the differences in the mean of a scale and the mid-points of the factors in order to establish the level of significance of the difference, if any, between them. Cooper and Schindler (2003:588) assert that a t-test determines the significance of a sample distribution and a parameter.

6.6.5 ANALYSIS OF VARIANCE (ANOVA)

An analysis of variance (Anova) was performed using demographical data to see whether the manager's seniority, job experience and time in banking had any influence on the dependant variables. Cooper and Schindler (2003:588) concur that the Anova establishes whether means from different sets of data come from the same sample which, in this case, establishes whether there is any difference in the means of the factors. This would establish if there were any differences in the interpretation of the variables in the different categories or factors. An analysis of variance is also a test of significance between and within the different independent variables in the same factor. Saunders *et al*. (2007:448) and Cooper and Schindler (2003:552) agree that an Anova tests the similarity of several means or other measures by using the variances between and within groups of data.

If they are equal, it means that they come from the same population. Of major concern to all scientists is the credibility of research findings. The credibility of the research findings suggests the degree to which the research is reliable and valid. In fact, the two are key to authentic research. It is therefore, natural that this research must be tested for reliability and validity.

6.6.6 VALIDITY AND RELIABILITY

Cooper and Schindler (2003:232), Bordens and Abbot (2008:129), Saunders *et al*. (2007:614) and Fraenkel and Wallen (2005:150) are relevant here, as they assert that validity refers to the extent to which a test measures what we actually want to measure. Hence, Frankfort-Nachmias and Nachmias (2000:149) indicate that validity is concerned with the question: "am I measuring what I intend to measure?" Fraenkel and Wallen (2005:150) explain that validity refers to the appropriateness, usefulness, correctness and meaningfulness of the inferences.

Strube (2000:24) declares that "reliability" refers to the consistency of the results. Accordingly, tests are applied to check whether the results will be the same should the research be repeated by another scientist and in a different context or environment (Saunders *et al.,* 2003:101). Cooper and Schindler (2003:231) then assert that reliability refers to the extent to which the procedure gives consistent results as well as to the extent to which the results are free of random or unstable error. In this instance, reliability relates to the accuracy and consistency of the responses.

According to Saunders *et al.* (2007:149), reliability is assessed by posing the following three questions:

- Will the measures yield the same result on another occasion?
- Will similar conclusions be reached by other observers?
- Is there transparency in how sense was made of the raw data?

Saunders *et al*. (2007:149) further point out that the threat to reliability is bias, whether it is from the interviewer, participant or observer. This is aptly summarised by Frankfort-Nachmias and Nachmias (2000:154), who explain that when measuring intangibles more errors may be produced than when measuring physical instruments. They also point out that momentary distraction on the part of the participant could result in an error. Thus, it can be argued that reliability stresses the consistency of outcomes and this occurs when the threats to reliability (e.g. bias and distractions) are reduced, as elimination of all errors might not be possible. It should also be added here that, when talking about "consistency", it follows that even if the outcomes are wrong, for as long as they are consistent, they are reliable. Figure 6.6 illustrates the validity and reliability tests used in this study.

Face validity =	**Agreement between expert and/or incumbent groups as to the suitability of the construct(s)**	**= Wilcoxon**
Reliability Alpha =	**Degree to which instruments are homogeneous and reflect the same underlying construct(s)**	**= Cronbach Alpha = 0,7**

Figure 6.6 Face validity and reliability

There are three regular tests for reliability:

- The test-retest method, which requires administering the same instrument (i.e. the questionnaire) twice and comparing the results. It is common, for instance, to take a patient's temperature more than once in hospital. However, it differs from situation to situation and the in-between periods will differ (the length of time between testing) depending on the nature of the research.
- In terms of the equivalent forms method, two different measuring instruments are used for the same research or experimentation. For example, two different questionnaires could be used for the same sample.

- The Kuder-Richardson approach in terms of which the mean, standard deviation and the number of items are used to establish what is known as the reliability coefficient.
- Fraenkel and Wallen (2005:161) claim that a reliability coefficient of 0,00 suggests a complete absence of a relationship between values.

In this study, Cronbach's alpha coefficients for the verifier determinant factors were used. All the factors had a Cronbach's alpha of 0.7 or higher.

6.6.7 WILCOXON

To test whether the factors are influenced significantly by the independent variable 'group', the Wilcoxon two-sample test and Kruskal-Wallis test were used. Owing to the small sample size (21, that is, nine experts and 12 incumbents, see also table 7.20), a t-test and the Kruskal-Wallis test were conducted to confirm the results from the Wilcoxon two-sample tests.

In this study, validity was strived for during the interview process. The interviewers interrogated the constructs, their signs, causes, relationships and measurements as perceived, considered and applied by the specialists

6.7 CONCLUSION

The techniques described in this chapter ensure that the research is scientific and the findings are acceptable to the scientific community. The purposive and judgemental sampling procedures ensured that respondents had sufficient experience to respond meaningfully.

Significantly, exploratory factor analysis was described, and was used to reveal the underlying constructs and to test their reliability. The next chapter details the findings flowing from the above techniques as used on the raw data.

CHAPTER 7
Research findings

CHAPTER 7
RESEARCH FINDINGS

"Even the deepest turnaround talents are helpless if their skills are too limited"
"Knowledge of financial statements, crisis management, business strategy and many other subjects are vital to achieve success"

"Though strong theoretical knowledge is valuable, understanding the entrepreneur's life is an absolute necessity"

Pennanen (2010:7)

7.1 INTRODUCTION

Verifiers are used to confirm the existence of problems in the business or in the business environment, as environmental scanning units seem to be unable to respond to what Ansoff (1975:25) calls "weak signals". Stubbart (1982:143) concludes "we have too many places to look and too few theories of how significant environmental change can be linked to the business's plans". The introduction of verifier determinants is intended to fill the "gap" in this regard and to focus the investigative stage of a turnaround situation.

The previous chapters shaped the foundation for an academic framework. In order to achieve the research objective of identifying verifier determinants, different opinions from a business, an accounting and a legal platform were presented. These opinions are given within a framework of early warning sign identification and turnaround practice. In the discussion with a selected specialist group, it became clear that some of the opinions are similar, but with varying denotations and terminology. Instances where the outlook on approaches is the same were grouped.

Sections of the research findings are supplied in the various appendixes attached to this document. These contain extensive lists and categories of construct elements relevant to this study.

This chapter emphasises the empirical findings. In addition, the use of statistical analysis is explained against a backdrop of demographic information and more descriptive inferences.

The following descriptive statistics are presented in this chapter:

- exploratory factor analysis for identification of factors
- ANOVA tables – illustrate the relationships between the factors and the independent variables
- the Wilcoxon two-sample test
- the Kruskal-Wallis test.

7.1.1 CASE RESEARCH RESULTS

Through the interview process, five main categories of early warning signs were identified, namely:

- management warning signs
- financial warning signs
- operational/market warning signs
- strategic warning signs
- banking warning signs.

After all interviews had been conducted, the participants were asked to rank the above categories of warning sign in order of importance. Participants agreed that managerial warning signs were the most important, but also the most difficult to identify and verify.

On a scale of 1 to 5 (5 being most important and 1 being least important), participants ranked the categories as follows:

- (5) management signs
- (4) strategic signs
- (3) financial signs

- (2) operational/market signs
- (1) banking signs

The specialist respondents could:

- identify early warning signs
- correctly identify and categorise Basel II
- correctly rank the cases
- identify causes quite accurately
- give a verifier determinant for each cause identified

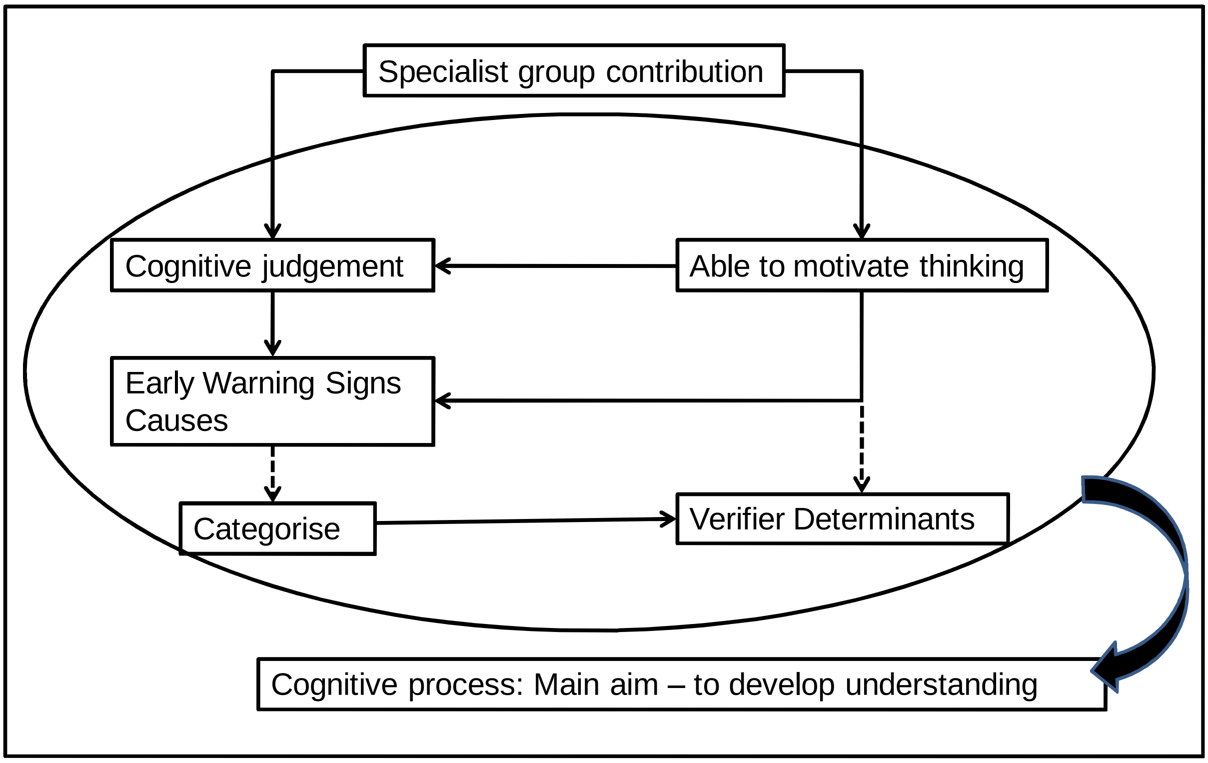

Figure 7.1 Specialist group cognitive process (own compilation)

The participants identified several verifier determinants related to each category. These showed a classic resemblance to the warning signs identified in the literature reviewed. The participants were also able to identify the same elements that are used in the Basel II findings, which demonstrates the participants' high level of knowledge. Moreover, the participants had no trouble in accurately placing the case studies in low, medium, or high-risk categories.

This comparison validates the interview findings. Tables 7.10 to 7.14 contain the variables identified by the specialists and were included in the questionnaire in order to be evaluated by the respondents.

7.2 EMPIRICAL FINDINGS: DESCRIPTIVE STATISTICS

This section details the results of the field research. The sample is described below in terms of the demographic information depicted in figures 7.1 to 7.5.

7.2.1 SAMPLE AND RESPONSE RATE

Questionnaires were distributed to 200 employees in the credit and the credit risk environment. Of these respondents, 92 (i.e. 46%) returned a completed questionnaire, giving a response rate of 46%, which was taken to be representative of the population and was used in the statistical analysis described in this chapter.

7.2.2 DEMOGRAPHICS

The demographic results are presented below. Respondents were classified into two groups namely ‘incumbent’ and ‘expert’. The incumbent group consists of credit managers, senior credit managers, area credit managers, regional credit managers, credit risk managers, senior credit risk managers and regional managers of credit risk. The expert group consisted of industry experts with vast experience of distressed business restructuring and credit lending. The majority of the respondents 83 (i.e. 90.2%) came from the incumbent group – see section 6.6.3. and table 7.1.

Table 7.1 Factor importance ratings and rankings in relation to expertise classification

The MEANS Procedure: Two distinct groups: incumbents and experts						
Groups	**N Obs**	**Variable**	**N**	**Mean**	**Std Dev**	**Ranking**
Incumbents	83	Managerial Verifier Determinants	83	3.349	0.393	2
		Financial Verifier Determinants	83	3.552	0.317	4
		Strategic Verifier Determinants	83	3.310	0.476	1
		Operational/Market Determinants	83	3.460	0.437	3
		Banking Verifier Determinants	83	3.659	0.352	5
Experts	9	Managerial Verifier Determinants	9	3.306	0.423	3
		Financial Verifier Determinants	9	3.454	0.177	4
		Strategic Verifier Determinants	9	3.133	0.224	1
		Operational/Market Determinants	9	3.233	0.427	2
		Banking Verifier Determinants	9	3.741	0.188	5

A question was posed to both the incumbent and expert groups, dividing the respondents into three subsets, namely, junior, middle and senior management.

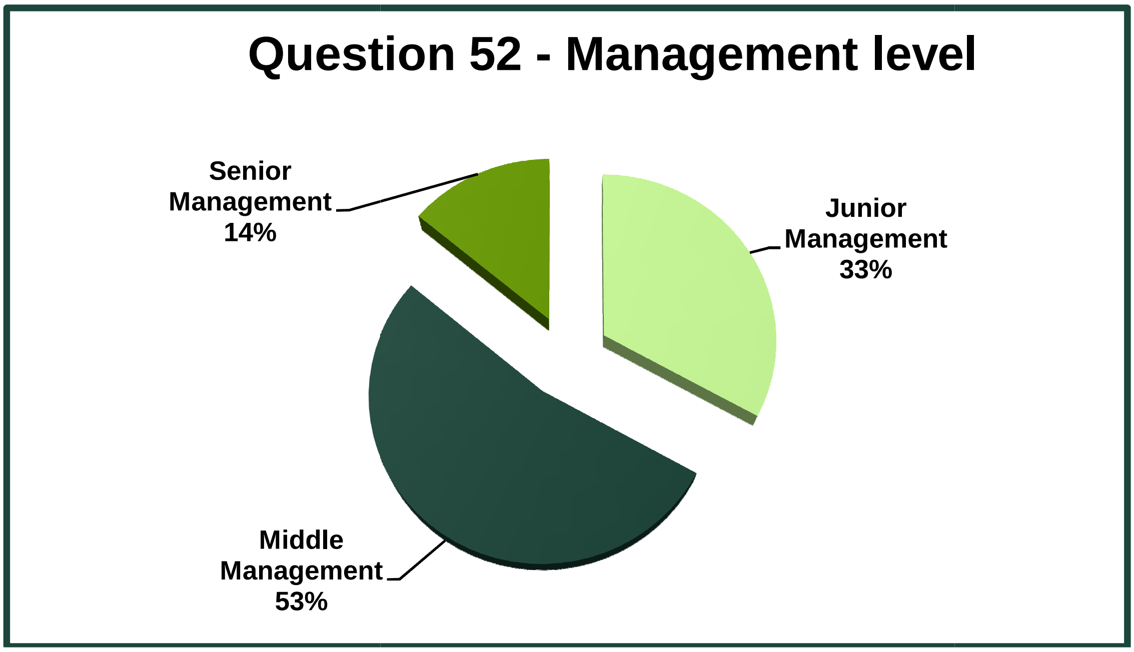

Figure 7.1 Levels of management

Refer to table 7.2

Table 7.2 Factor importance ratings and rankings in relation to management classification levels of management

The MEANS Procedure: Question - I am senior / middle/ junior management						
v53	**N Obs**	**Variable**	**N**	**Mean**	**Std Dev**	**Ranking**
Junior	28	Managerial Verifier Determinants	28	3.372	0.355	2
		Financial Verifier Determinants	28	3.610	0.286	4
		Strategic Verifier Determinants	28	3.329	0.477	1
		Operational/Market Determinants	28	3.557	0.373	3
		Banking Verifier Determinants	28	3.685	0.355	5
Middle	51	Managerial Verifier Determinants	51	3.345	0.423	2
		Financial Verifier Determinants	51	3.525	0.323	4
		Strategic Verifier Determinants	51	3.261	0.494	1
		Operational/Market Determinants	51	3.406	0.463	3
		Banking Verifier Determinants	51	3.676	0.324	5
Senior	13	Managerial Verifier Determinants	13	3.288	0.377	1
		Financial Verifier Determinants	13	3.468	0.273	4
		Strategic Verifier Determinants	13	3.338	0.260	3
		Operational/Market Determinants	13	3.308	0.446	2
		Banking Verifier Determinants	13	3.590	0.383	5
Ranking: 5 = high importance, 1 = low importance						

Middle management contributed 53% of all respondents. This is to be expected since the lending environment requires a certain level of expertise and middle managers contribute significantly in terms of their knowledge and experience (refer to figure 7.2), which was beneficial to this research. There was a definite difference in the rankings in terms of management levels. Strategic verifier determinants were ranked higher by senior management, while banking and financial verifier determinants were more important to junior and middle management.

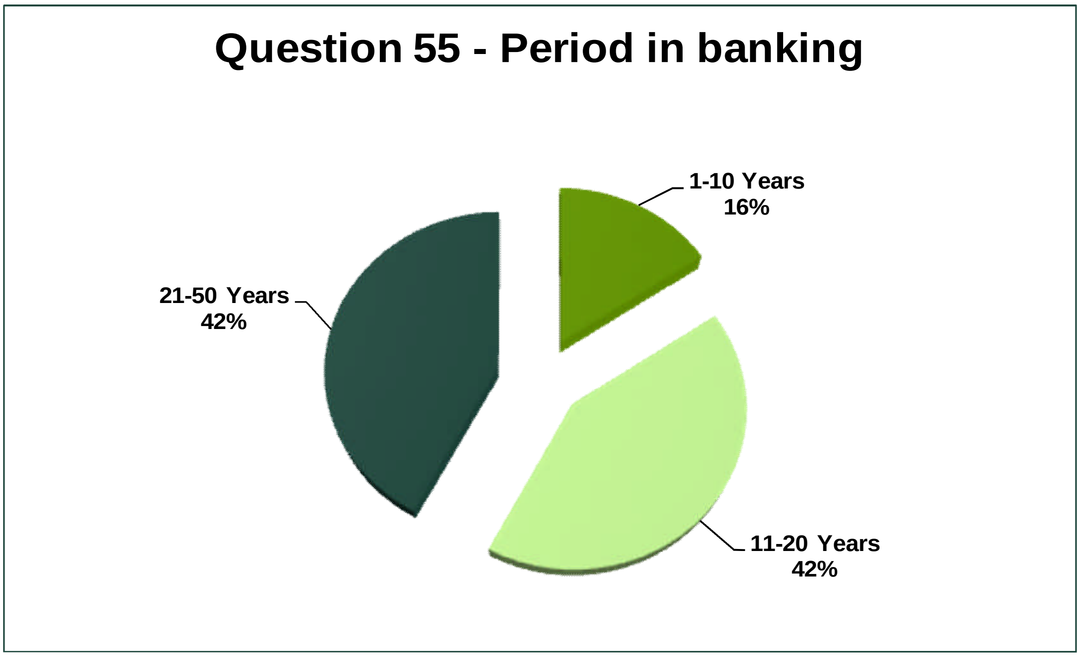

Figure 7.2 Service period in banking

A respondent with a high level of expertise is expected to have been substantially exposed to the banking environment in which he/she operates. Hence, a high level of expertise requires a certain number of years' experience. The respondents to this question depict this requirement, as the majority (84%) has more than 10 years' banking experience. This does, however, need to be tested against the number of years the respondents have been in their current positions.

The factor importance ratings and rankings in relation to classification of length of service in banking, is illustrated in table 7.3 and depicted in figure 7.3.

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Table 7.3 Factor importance ratings and rankings in relation to classification of length of service in banking

The MEANS Procedure: Question- How long have you been in banking in years?						
vv56	N Obs	Variable	N	Mean	Std Dev	Ranking
1-15	32	Managerial Verifier Determinants	32	3.263	0.443	2
		Financial Verifier Determinants	32	3.508	0.310	4
		Strategic Verifier Determinants	32	3.147	0.485	1
		Operational/Market Determinants	32	3.369	0.496	3
		Banking Verifier Determinants	32	3.516	0.365	5
16-25	39	Managerial Verifier Determinants	39	3.408	0.336	2
		Financial Verifier Determinants	39	3.562	0.335	4
		Strategic Verifier Determinants	39	3.359	0.483	1
		Operational/Market Determinants	39	3.421	0.448	3
		Banking Verifier Determinants	39	3.756	0.308	5
26+	21	Managerial Verifier Determinants	21	3.353	0.411	1
		Financial Verifier Determinants	21	3.560	0.249	3
		Strategic Verifier Determinants	21	3.390	0.321	2
		Operational/Market Determinants	21	3.576	0.290	4
		Banking Verifier Determinants	21	3.730	0.286	5
Ranking: 5 = high importance, 1 = low importance						

There was a definite difference in the rankings in terms of management levels: operational/market and strategic verifier determinants were ranked higher by those who had been members of management longer, while banking and financial verifiers determinants were important to all three categories of manager.

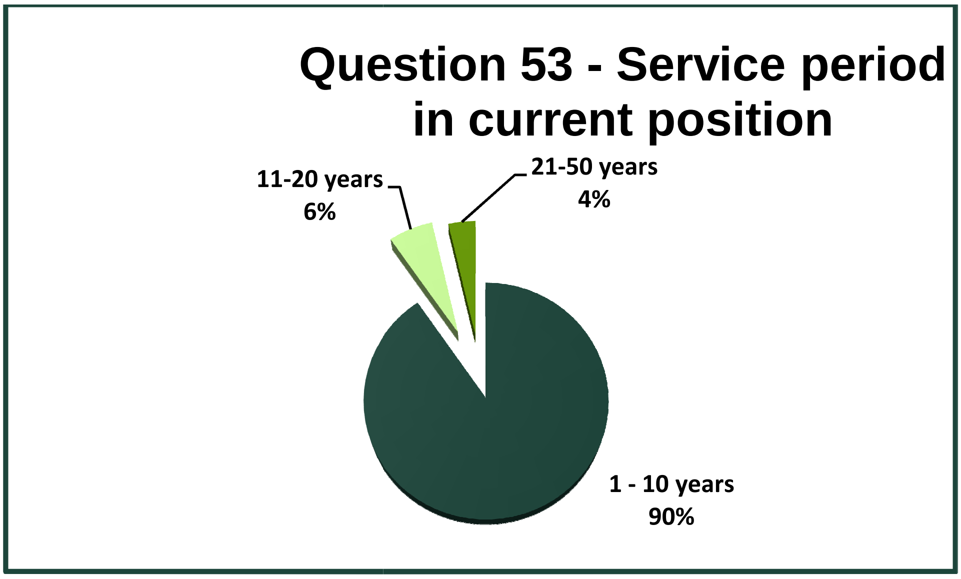

Figure 7.3 Service period in current position

Of all the respondents, 66% had been in their current position for less than five years, although they had sufficient experience when taking the number of years in banking into account. However, their experience in their current positions could be lacking due to the relative short exposure to the job function, refer to figure 7.4..

Table 7.4 Factor importance ratings and rankings in relation to classification of service period in current position

The MEANS Procedure: Question - How long have you been in this position in years?						
vv54	N Obs	Variable	N	Mean	Std Dev	Ranking
0-5	61	Managerial Verifier Determinants	61	3.381	0.422	2
		Financial Verifier Determinants	61	3.563	0.320	4
		Strategic Verifier Determinants	61	3.328	0.478	1
		Operational/Market Determinants	61	3.446	0.457	3
		Banking Verifier Determinants	61	3.678	0.330	5
6-45	31	Managerial Verifier Determinants	31	3.274	0.327	2
		Financial Verifier Determinants	31	3.503	0.279	4
		Strategic Verifier Determinants	31	3.223	0.420	1
		Operational/Market Determinants	31	3.423	0.407	3
		Banking Verifier Determinants	31	3.645	0.362	5

Other demographic information includes respondent's age and education level. All respondents were older than 25 years, which makes sense since a certain level of expertise was required for inclusion. The majority of the respondents have a post-matric qualification, which is in line with the job requirement and the responsibility requirement.

Table 7.5 Comparison between education level and management level of respondents

	Management Level			
Education Qualification	Junior	Middle	Senior	Total
Matric	12	2	1	15
Diploma	4	15	3	22
Degree	8	16	6	30
Post Degree	3	11	2	16
Total	27	44	12	83

Respondents having only a matric fall mainly into the junior management category, which is to be expected. The category, middle management, contained the majority of respondents with post-matric qualifications.

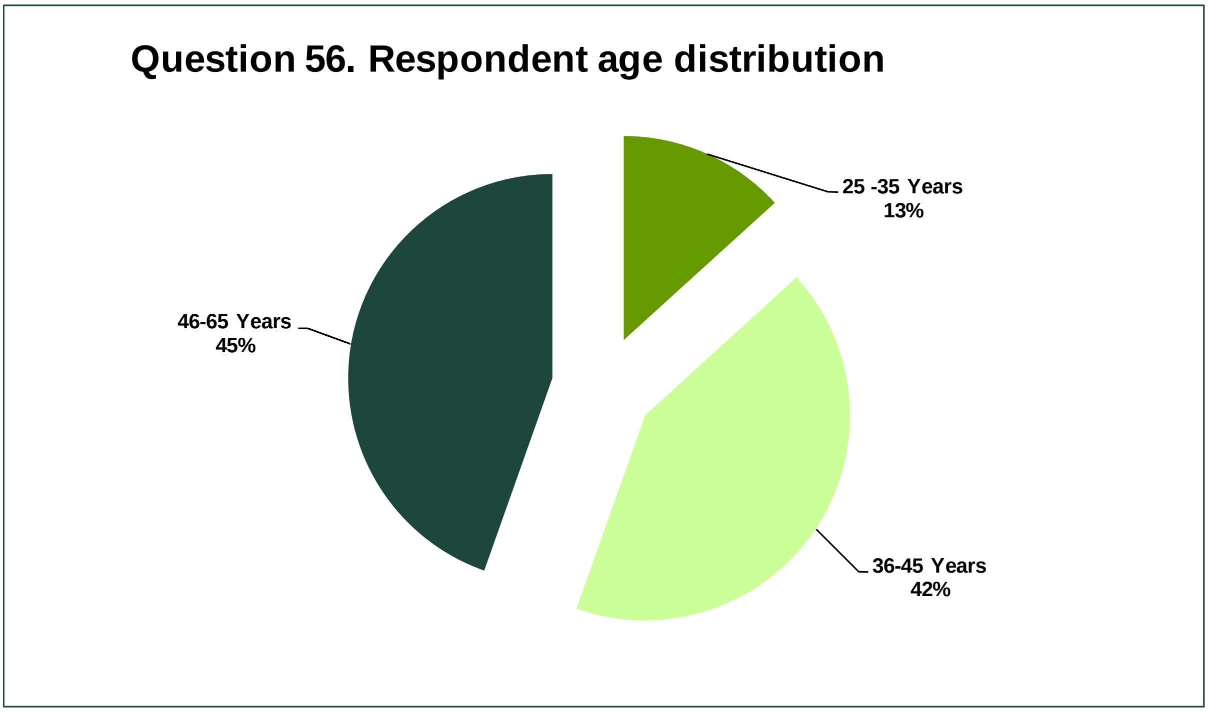

Figure 7.4 Respondent age distribution

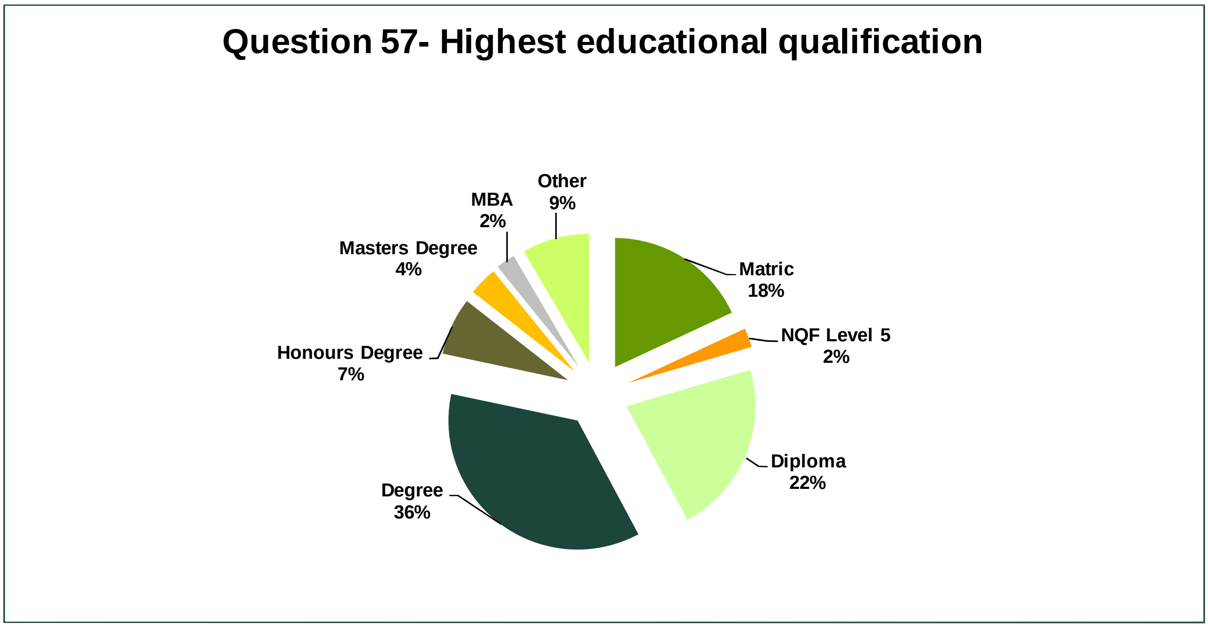

Figure 7.5 Highest educational qualification

The significance of higher education is illustrated by the very low percentage of 18% of respondents with a Grade 12 only as their highest qualification. The spread also confirms the environment's requirement for post-matric qualifications. Of significance here is the number of respondents (49%) with graduate and postgraduate qualifications.

7.2.3 FACTOR ANALYSIS

Questions 1 to 50 are the verifier determinants identified from the interview process. These questions were grouped according to the constructs of early warning signs. The constructs identified in the interview process and confirmed by the secondary data research are reflected as the five factors (f1 to f5) shown in the table 7.6.

Table 7.6 Description of factors

Factor analysis		
Factor no	**Questions**	**Definitions**
f1	v2-v13	Managerial Verifier Determinants
f2	v14-v25	Financial Verifier Determinants
f3	v26-v35	Strategic Verifier Determinants
f4	v36-v45	Operational/Market Verifier Determinants
f5	v46-v51	Banking Verifier Determinants

Table 7.7 Univariate statistics for factor analysis

Information	(Factor 1)	(Factor 2)	(Factor 3)	(Factor 4)	(Factor 5)
Number of items	12	12	10	10	5
Mean	3.345	3.543	3.292	3.438	3.667
Median	3.417	3.500	3.300	3.500	3.667
Mode	3.417	3.500	3.100	3.500	4.000
Standard Deviation	0.394	0.307	0.460	0.439	0.340
Variance	0.155	0.094	0.211	0.192	0.115
Specilist group ranking %= most-, 1 = least important	5	3	4	2	1
Cronbach's Alpha coefficient: Raw	0.791	0.747	0.891	0.874	0.691
Cronbach's Alpha coefficient: Standardised	0.783	0.744	0.891	0.875	0.697
n=92					

Table 7.8 Ranking comparison of factors

		Specialist	Expert	Incumbent	Junior	Middle	Senior
f1	Managerial Verifier Determinants	High					
f2	Financial Verifier Determinants		High	High	High	High	
f3	Strategic Verifier Determinants			Low	Low	Low	High
f4	Operational/Market Determinants		Low				Low
f5	Banking Verifier Determinants	Low					

		Specialist	Expert	Incumbent	Banking 1-15	Banking 16-25	Banking26+
f1	Managerial Verifier Determinants	High					Low
f2	Financial Verifier Determinants		High	High	High		High
f3	Strategic Verifier Determinants			Low		Low	
f4	Operational/Market Determinants		Low		Low		
f5	Banking Verifier Determinants	Low				High	

		Specialist	Expert	Incumbent	Period < 5	Period > 5
f1	Managerial Verifier Determinants	High				
f2	Financial Verifier Determinants		High	High	High	High
f3	Strategic Verifier Determinants			Low	Low	Low
f4	Operational/Market Determinants		Low			
f5	Banking Verifier Determinants	Low				

The financial verifier determinants were favoured by most of the respondents as being of high importance. This was to be expected as the research was conducted in a financial institution. Furthermore, financial verifier determinants are largely measurable. For the same reason, strategic verifier determinants were rated as being of low importance by all respondents except for senior management. It can thus be deduced that the more senior managers rely on experience in order to "measure" the levels of strategic and managerial verifier determinants.

All five factors are highly correlated with each other as can be seen from the correlations in table 7.9. The hypothesis that the factors are not correlated, is rejected.

Table 7.9 Factor correlations

Pearson Correlation Coefficients, N=92 Prob >[r] under HO: Rho=0	f1	f2	f3	f4	f5
Managerial Verifier Determinants	1.000				
Financial Verifier Determinants	0.618 p<0,0001	1.000			
Strategic Verifier Determinants	0.719 p<0.0001	0.720 0.0001	1.000		
Operational/Market Determinants	0.535 p<0.0001	0.700 0.0001	0.731 0.0001	1.000	
Banking Verifier Determinants	0.512 p<0.0001	0.581 0.0001	0.557 0.0001	0.488 0.0001	1.000

The verifier variables which are included in each of the factor determinants discussed are reflected in table 7.10. These determinants were arrived at from the interview process with the specialist group. The interview process was successful in eliciting statements from the specialist group in which the specific variables were highlighted

Table 7.10 Variables in the managerial verifier factor

Question number	*When you visit a business where there is suspicion of potential decline, how important will the following be to verify decline*	Mean	Ranking
2	No or limited management information system in operation	3.772	11
3	Managers education does not compliment business	3.011	2
4	Entrepreneur is “scapegoating” (blaming)	3.185	4
5	Inflexibility when making decisions regarding change	3.315	5
6	Entrepreneur absent from work and important meetings	3.717	9
7	Impulsive decision making	3.435	6
8	Not able to recall management info immediately (ask others)	3.315	5
9	Absence of up to date management accounts	3.761	10
10	Important decision made on golf course	2.500	1
11	Manager’s personal problems, health or marriage, overshadow business focus	3.446	7
12	Super cars and "toys"	3.152	3
13	Business has outgrown managers/ owners/ directors skills set	3.533	8
Ranking: 11 = high importance, 1 = low importance			

The 12 managerial variables identified by the specialist group are listed in table 7.10; this reflects the statements in the questionnaire from question 2 to 13.

These statements give the consolidated view of statements made by the specialist group on business management during the interview. A Cronbach's alpha of 0,783 suggests high reliability.

Example: when visiting a business and during consultation with management and management is unable to recall management information immediately and have to rely on others to submit such information, it is clear that management is lacking in the business.

Table 7.11 Variables in the financial verifier factor

Question number	*When you visit a business where there is suspicion of potential decline, how important will the following be to verify decline*	Mean	Ranking
14	Labour cost excessive for business type	3.565	5
15	Absence of or unrealistic cash flow projections	3.630	7
16	A high risk project or one big project dependence.	3.685	9
17	Late submission of financials in an attempt to postpone unfavourable news	3.859	10
18	Sensitivity on tax avoidance	3.685	9
19	Not analysing internal financial information	3.652	8
20	Underutilisation of assets	3.109	1
21	Creative accounting	3.609	6
22	Pricing and discounts for cash generation	3.207	2
23	Slowing down and stretching payments to suppliers in an attempt to generate	3.478	4
24	High executive remuneration	3.402	3
25	Dividend payouts unstructured and considered too high	3.630	7
Ranking: 10 = high importance, 1 = low importance			

The 12 financial variables identified by the specialist group are listed in table 7.11. This table reflects the statements in the questionnaire from questions 14 to 25. These statements were identified by specialists and evaluated by respondents (experts and incumbents). A Cronbach's alpha of 0,744 suggests high reliability.

Example: when visiting a business and during consultation with management, management is over-sensitive on tax elusion and embark on creative accounting, it is therefore clear that management is on an collusion course and the integrity of financial information is suspect.

The 10 strategic variables identified by the specialist group are listed table 7.12. This table reflects the statements in the questionnaire from questions 26 to 35. A Cronbach's alpha of 0,891 suggests high reliability.

Table 7.12 Variables in the strategic verifier factor

Question number	*When you visit a business where there is suspicion of potential decline, how important will the following be to verify decline*	Mean	Ranking
26	Forced growth through mergers and acquisitions	3.000	2
27	Overambitious growth strategy	3.337	6
28	Not willing to deviate from strategic plan	3.076	3
29	Non responsive to small inefficiencies	2.717	1
30	Unclear strategy for product and market	3.500	8
31	Inability to adapt to business life cycles	3.457	7
32	Difficult fit between strategic posture, organization structure and industry life	3.207	4
33	Overexpansion of capacity without considering market	3.652	9
34	Lack of strategies to combat decline	3.674	10
35	Lack of fusion between strategic issues and everyday operations	3.304	5
Ranking: 10 = high importance, 1 = low importance			

Example: Management are unable to except or adapt to change, but concentrate on growth without having business and/or strategic plans in place. These variables clearly indicate a weak strategic position.

The 10 operational/market variables identified by the specialist group are listed in table 7.13, which reflects the statements in the questionnaire from question 2 to 13. These statements are the consolidated view of statements on operational and market variables made during the interview with the specialist group. A Cronbach's alpha of 0,785 suggests high reliability (see table 7.7).

Table 7.13 Variables in the operational/market verifier factor

Question number	*When you visit a business where there is suspicion of potential decline, how important will the following be to verify decline*	Mean	Ranking
36	Inappropriate channels of distribution.	3.402	7
37	Aging production techniques	3.250	9
38	Not knowing about new technology in his industry	3.435	6
39	Misinterpretation of competitive advantage	3.391	8
40	Declining emphasis on advertising	2.772	10
41	Poor service or products	3.739	2
42	Reliance on one customer	3.783	1
43	Failure to respond to high cost in comparison with competitors	3.565	3
44	Market forces ignored in planning	3.500	5
45	Core markets moving away from location	3.543	4
Ranking: 10 = high importance, 1 = low importance			

Example: Investigation of operational issues, such as distribution channels, will soon lead to the identification and confirmation of inefficiencies in the management of "proof of deliveries" and correctness and validation of debtor statements.

The six banking variables identified by the specialist group are listed in table 7.14. This table reflects the statements in the questionnaire from questions 46 to 51. These statements are the consolidated view of statements on banking variables made during the interview with the specialist group. A Cronbach's alpha of 0,697 suggests high reliability.

Table 7.14 Variables in the banking verifier factor

Question number	*When you visit a business where there is suspicion of potential decline, how important will the following be to verify decline*	Mean	Ranking
46	Regular stop payments on creditor obligations	3.772	4
47	Increase in short term requests for cash flow purposes	3.793	5
48	Declining deposit balances, and/or returned cheques.	3.880	6
49	Rounded amounts paid to creditors	3.620	3
50	Overdraft advance funds other purposes, such as asset acquisition.	3.500	2
51	Funding structure does not complement business model	3.435	1
Ranking: 6 = high importance, 1 = low importance			

Example: When visiting a business and during consultation with management, management is unable to recall management information immediately and have to rely on others to submit such information; it is therefore clear that there is a lack of management in the business.

7.3 EMPIRICAL FINDINGS: INFERENTIAL STATISTICS

This section gives details of tests of differences and variance analysis performed on the data used in the empirical study.

7.3.1 MULTI-WAY ANALYSIS OF VARIANCE (ANOVA)

In order to establish whether relationships exist between the factors and the independent variables, a multi-way analysis of variance was conducted.

The ANOVA tables presented in tables 7.15 to 7.19 below are based on the data obtained from the 91 completed questionnaires. Factors have been transformed to comply to the requirements of equal variances and normality of the residuals.

Table 7.15 ANOVA for Factor 1: managerial verifier determinants

The GLM Procedure					
Dependent Variable: managerial verifier determinant					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	6	4.423	0.737	0.740	0.618
Error	85	84.492	0.994		
Corrected Total	91	88.914			
R-Square	Coeff Var	Root MSE	cf1 Mean		
0.050	1.967	0.997	0.000		
Source	DF	Type III SS	Mean Square	F Value	Pr > F
Group	1	0.165	0.165	0.170	0.685
How long have you been in this position in years?	1	1.576	1.576	1.590	0.211
How long have you been in banking in years?	2	2.350	1.175	1.180	0.312
I am senior / middle/ junior management.	2	0.220	0.110	0.110	0.895

Table 7.15 shows that the managerial verifier determinants are not significantly influenced by any of the independent variables on a 5% level of significance ($p < 0,05$).

Table 7.16 ANOVA for Factor 2: financial verifier determinants

The GLM Procedure					
Dependent Variable: financial verifier determinant					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	6	4.410	0.735	0.740	0.619
Error	85	84.505	0.994		
Corrected Total	91	88.914			
R-Square	Coeff Var	Root MSE	cf2 Mean		
0.050	-1.712	0.997	0.000		
Source	DF	Type III SS	Mean Square	F Value	Pr > F
Group	1	0.826	0.826	0.830	0.365
How long have you been in this position in years?	1	0.413	0.413	0.420	0.521
How long have you been in banking in years?	2	1.263	0.632	0.640	0.532
I am senior / middle/ junior management.	2	1.883	0.941	0.950	0.392

Table 7.16 shows that the financial verifier determinants are not significantly influenced by any of the independent variables on a 5% level of significance ($p < 0,05$).

Table 7.17 ANOVA for Factor 3: strategic verifier determinants

The GLM Procedure					
Dependent Variable: strategic verifier determinant					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	6	9.781	1.630	1.750	0.119
Error	85	79.133	0.931		
Corrected Total	91	88.914			
R-Square	Coeff Var	Root MSE	cf3 Mean		
0.110	1.428	0.965	0.000		
Source	DF	Type III SS	Mean Square	F Value	Pr > F
Group	1	1.336	1.336	1.440	0.234
How long have you been in this position in years?	1	1.593	1.593	1.710	0.194
How long have you been in banking in years?	2	5.918	2.959	3.180	0.047
I am senior / middle/ junior management.	2	1.179	0.590	0.630	0.533

Table 7.17 shows that the strategic verifier determinants are significantly influenced by the number of years in banking (p < 0,05). These verifier determinants are not significantly influenced by any of the other independent variables on a 5% level of significance (p < 0,05).

Table 7.18 ANOVA for Factor 4: operational/marketing verifier determinants

The GLM Procedure					
Dependent Variable: operational/market verifier determinant					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	6	8.268	1.378	1.450	0.205
Error	85	80.646	0.949		
Corrected Total	91	88.914			
R-Square	Coeff Var	Root MSE	cf4 Mean		
0.093	3.153	0.974	0.000		
Source	DF	Type III SS	Mean Square	F Value	Pr > F
Group	1	1.280	1.280	1.350	0.249
How long have you been in this position in years?	1	0.111	0.111	0.120	0.734
How long have you been in banking in years?	2	4.418	2.209	2.330	0.104
I am senior / middle/ junior management.	2	3.290	1.645	1.730	0.183

Table 7.18 shows that the operational/marketing verifier determinants are not significantly influenced by any of the independent variables on a 5% level of significance ($p < 0,05$)

Table 7.19 ANOVA for Factor 5: banking verifier determinants

The GLM Procedure					
Dependent Variable: banking verifier determinant					
Source	DF	Sum of Squares	Mean Square	F Value	Pr > F
Model	6	9.834	1.639	1.760	0.117
Error	85	79.080	0.930		
Corrected Total	91	88.914			
R-Square	Coeff Var	Root MSE	cf5 Mean		
0.111	-1.817	0.965	0.000		
Source	DF	Type III SS	Mean Square	F Value	Pr > F
Group	1	0.339	0.339	0.360	0.548
How long have you been in this position in years?	1	0.141	0.141	0.150	0.698
How long have you been in banking in years?	2	8.594	4.297	4.620	0.013
I am senior / middle/ junior management.	2	1.832	0.916	0.980	0.378

Table 7.19 shows that the banking verifier determinants are significantly influenced by the number of years in banking ($p < 0{,}05$). These verifier determinants are not significantly influenced by any of the other independent variables on a 5% level of significance ($p < 0{,}05$).

7.3.2 WILCOXON TWO-SAMPLE TEST AND KRUSKAL-WALLIS TEST

To test whether the factors are influenced significantly by the independent variable ‘group’, the Wilcoxon two-sample test and Kruskal-Wallis test are used. Owing to the small sample size (21), a t-approximation is shown in the Wilcoxon two-sample tests, and the Kruskal-Wallis tests were conducted to confirm the results from the Wilcoxon two-sample tests.

Table 7.20 Means procedure for the incumbent and expert groups

The Means Procedure						
N			N	Mean	Std Dev	Ranking
Group	Obs	Variable				
Incumbent	12	Managerial Verifier Determinants	12	3.424	0.377	2
		Financial Verifier Determinants	12	3.604	0.293	5
		Strategic Verifier Determinants	12	3.350	0.481	1
		Operational/Market Determinants	12	3.483	0.501	3
		Banking Verifier Determinants	12	3.583	0.399	4
Ranking: 5 = high importance 1= low importantce						
Expert	9	Managerial Verifier Determinants	9	3.306	0.423	3
		Financial Verifier Determinants	9	3.454	0.177	4
		Strategic Verifier Determinants	9	3.133	0.224	1
		Operational/Market Determinants	9	3.233	0.427	2
		Banking Verifier Determinants	9	3.741	0.188	5

In table 7.20, the Kruskal-Wallis test yields a p-value of 0,642. This indicates that the managerial verifier determinants are not significantly influenced by the incumbent and expert group on a 5% level of significance. This confirms the results obtained from the Wilcoxon two-sample tests.

Table 7.21 Testing managerial verifier determinants for influence between the incumbent and expert groups

The NPAR1WAY Procedure					
Wilcoxon Scores (Rank Sums) for Variable: Managerial Verifier Determinant					
Group	N	Sum of Scores	Expected Under HO	Std Dev Under HO	Mean Score
Incumbent	12	138.500	132.000	13.975	11.542
Expert	9	92.500	99.000	13.975	10.278
Average scores were used for ties					

Wilcoxon Two-Sample Test	
Statistic	92.5
Normal Approximation	
Z	-0.429
One-sided Prize	0.334
Two Sided Pr.|Z|	0.668
t Approximation	
One-Sided Pr . Z	0.336
Two-Sided Pr. |Z|	0.672
Z includes a continuity correction of 0.5	

Kruskal-Wallis Test	
Chi-Square	0.216
DF	1
Pr.Chi-Square	0.642

Table 7.21 shows that the Kruskal-Wallis test yields a p-value of 0,642. This indicates that the financial verifier determinants are not significantly influenced by the incumbent or expert groups on a 5% level of significance. This confirms the results obtained from the Wilcoxon two-sample tests.

Table 7.22 Testing financial verifier determinants for influence between the incumbent and expert groups

The NPAR1WAY Procedure					
Wilcoxon Scores (Rank Sums) for Variable: Financial Verifier Determinant Classified by Variable Group					
Group	**N**	**Sum of Scores**	**Expected Under HO**	**Std Dev Under HO**	**Mean Score**
Incumbent	12	154.000	132.000	13.989	12.833
Expert	9	77.000	99.000	13.989	8.556
Average scores were used for ties					

Wilcoxon Two-Sample Test	
Statistic	77
Normal Approximation	
Z	-1.537
One-sided Pr.Z	0.062
Two Sided Pr.|Z|	0.124
t Approximation	
One-Sided Pr . Z	0.070
Two-Sided Pr. |Z|	0.140
Z includes a continuity correction of 0.5	

Kruskal-Wallis Test	
Chi-Square	2.473
DF	1
Pr.Chi-Square	0.116

Table 7.22 shows that the Kruskal-Wallis test yields a p-value of 0,116. This indicates that the financial verifier determinants are not significantly influenced by the incumbent or the expert groups on a 5% level of significance. This confirms the results obtained from the Wilcoxon two-sample tests.

Table 7.23 Testing strategic verifier determinants for influence between the incumbent and expert groups

The NPAR1WAY Procedure

Wilcoxon Scores (Rank Sums) for Variable: Strategic Verifier Determinant Classified by Variable Group

Group	N	Sum of Scores	Expected Under HO	Std Dev Under HO	Mean Score
Incumbent	12	145.000	132.000	13.966	12.083
Expert	9	86.000	99.000	13.966	9.556

Average scores were used for ties

Wilcoxon Two-Sample Test	
Statistic	86.000
Normal Approximation	
Z	-0.895
One-sided Pr.Z	0.185
Two Sided Pr.|Z|	0.371
t Approximation	
One-Sided Pr . Z	0.191
Two-Sided Pr. |Z|	0.381

Z includes a continuity correction of 0.5

Kruskal-Wallis Test	
Chi-Square	0.867
DF	1
Pr.Chi-Square	0.352

Table 7.23 indicates that the Kruskal-Wallis test yields a p-value of 0,352. This indicates that the strategic verifier determinants are not significantly influenced by the incumbent or the expert groups on a 5% level of significance. This confirms the results obtained from the Wilcoxon two-sample tests.

Table 7.24 Testing operational/market verifier determinants for influence between the incumbent and expert groups

The NPAR1WAY Procedure					
Wilcoxon Scores (Rank Sums) for Variable: Operational/Market Verifier Determinant					
Group	**N**	**Sum of Scores**	**Expected Under HO**	**Std Dev Under HO**	**Mean Score**
Incumbent	12	150.500	132.000	13.984	12.542
Expert	9	80.500	99.000	13.984	8.944
Average scores were used for ties					

Wilcoxon Two-Sample Test	
Statistic	80.500
Normal Approximation	
Z	-1.287
One-sided Pr.Z	0.099
Two Sided Pr.|Z|	0.198
t Approximation	
One-Sided Pr . Z	0.106
Two-Sided Pr. |Z|	0.213
Z includes a continuity correction of 0.5	

Kruskal-Wallis Test	
Chi-Square	1.750
DF	1
Pr.Chi-Square	0.186

Table 7.24 shows that the Kruskal-Wallis test yields a p-value of 0,186. This indicates that the operational/market verifier determinants are not significantly influenced by either the incumbent or the expert groups on a 5% level of significance. This confirms the results obtained from the Wilcoxon two-sample tests.

Table 7.25 Testing banking verifier determinants for influence between the incumbent and expert groups

The NPAR1WAY Procedure					
Wilcoxon Scores (Rank Sums) for Variable: Banking Verifier Determinant Classified by Variable Group					
Group	**N**	**Sum of Scores**	**Expected Under HO**	**Std Dev Under HO**	**Mean Score**
Incumbent	12	123.500	132.000	13.748	10.292
Expert	9	107.500	99.000	13.748	11.944
Average scores were used for ties					

Wilcoxon Two-Sample Test	
Statistic	107.500
Normal Approximation	
Z	0.582
One-sided Pr.Z	0.280
Two Sided Pr.|Z|	0.561
t Approximation	
One-Sided Pr . Z	0.284
Two-Sided Pr. |Z|	0.567
Z includes a continuity correction of 0.5	

Kruskal-Wallis Test	
Chi-Square	0.382
DF	1
Pr.Chi-Sqaure	0.536

Table 7.25 shows that the Kruskal-Wallis test yields a p-value of 0,536. This indicates that the banking verifier determinants are not significantly influenced by the either the incumbent or the expert group on a 5% level of significance. This confirms the results obtained from the Wilcoxon two-sample tests.

7.4 CHAPTER SUMMARY

In this chapter the results from the empirical study were presented and the five factors that were identified were tested for significance. The inferential statistics were presented using ANOVA tables and tests for any relationship between the factors and the incumbent and expert groups were conducted by making use of the Wilcoxon two-sample test and the Kruskal-Wallis test.

The next chapter explores the findings from the study by drawing conclusions from the research and, consequently, making recommendations and suggestions for future research opportunities. The main focus of the next chapter is, firstly, to discuss the findings and, secondly, to propose a turnaround framework for use by entrepreneurs, bankers and practitioners. The limitations of this study will also be mentioned.

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CHAPTER 8

Conclusion

CHAPTER 8

CONCLUSION

"The fact is, you can't afford to think too much during a turnaround. Time is tight; money is tighter. If you sit around devising elegant and complex strategies and then try to execute them through a series of flawless decisions, you're doomed."

And

"Did you know that there are no rearview mirrors on an airplane? The runway behind is irrelevant."

Brenneman (1998:163, 164)

8.1 INTRODUCTION

The closing chapter comprises a summary of the conclusions and empirical findings in terms of a turnaround framework. The research is concluded by revisiting the research objectives and discussing the limitations of the research. In addition, the contribution made by the study is identified and recommendations are made for future research. This chapter concludes with a critical summary of the main conclusions, definitions and frameworks.

In the previous chapters, the foundation for an academic framework was laid. In order to achieve the research objective of identifying verifier determinants, various opinions from a business, an accounting and a legal platform were presented. These opinions are identified within a framework of early warning signs and turnaround practice. In the discussions with a selected expert group, it became clear that some of the experts' opinions are similar, but have varying denotations and use different terminology. Instances where the outlook on approaches was the same were grouped.

8.2 SUMMARY OF THE MAIN FINDINGS

This study introduced a number of new constructs that can be used in a business turnaround context, namely:

- business triage (section 1.3, fig. 1.1)
- verifier determinant (section 1.5, fig. 1.2)
- turnaround framework, introducing the constructs “business triage” and “verifier determinant” (section 8.5, fig. 8.1)
- a timeline schedule for executing the rescue process (section 5.6.2, fig. 5.1).

Although the psychology of turnaround was not the focus of this study, the relevant turnaround literature highlighted the importance of the psychological impact of turnaround on entrepreneurs. The successful administration of a business is only a small part of the challenges facing entrepreneurs, and the psychological impact that the decline, distress and turnaround of a business has on the entrepreneur should not be underestimated.

In order to save their businesses, entrepreneurs must be equipped with the knowledge needed to formulate and implement rescue plans. In chapter 2, the deduction was made that entrepreneurs operate under behavioural patterns of high-risk acceptance. In line with this, this research has identified and addressed the need for an early warning control system in businesses.

Formal rescue/turnaround routes are, owing to various negativities and high costs, undesirable and entrepreneurs will favour a more informal approach. However, there are a multitudes of dangers and constraints that can negatively affect a possible successful rescue/turnaround. The introduction of a commercial process of business rescue proceedings will hopefully address these constraints.

The literature study considered seminal work on early warning signs which was summarised and analysed comprehensively in Appendix A.

The deduction made was that authors use an array of terminology to arbitrarily describe early warning signs, *inter alia*:

:

- success versus failure variables
- causes of decline and/or failure
- warning indicators for business decline
- performing and non-performing variables
- root causes for decline or failure
- warning indicators
- material defects
- external and internal factors
- distress variables
- problems
- challenges.

Notwithstanding the various ways of describing early warning signs, the authors, as per appendix A, seem to have consensus on the five main early warning sign categories. The classification of warning signs identified by authors in the literature was largely confirmed in a comprehensive literature and case research, which was discussed in chapter 6 of this study. The case research conducted with a sample group of credit specialists in a banking environment identified various early warning sign categories. This group confirmed the main categories and explored the variables associated with each.

Using the five main categories identified by academics and confirmed by the case research, the literature research is summarised in Appendix A. Banking early warning signs are not discussed by most authors, as they are clearly industry specific and are favoured by authors researching financial institutions. These signs are included as Appendix B. Owing to the fact that this research was conducted within a financial institution, banking signs were reflected separately.

Turnaround management has evolved as more research data has become available over time. From the literature explored in this research it is evident that most authors approach the study of turnaround management from a non-accounting data perspective, with some authors adopting a pragmatic approach to turnaround, which tends to drill down into the fine details or qualitative issues.

The timing of a turnaround is one of the more contentious issues addressed by stakeholders both internationally and nationally. Turnaround is typified by very limited timeframes, while the very nature of business strategy planning and execution means that they move at a more pedestrian pace.

The second differentiating factor identified by this research is the availability and importance of resources; that is, in a turnaround situation resources are generally scarce, whereas under normal circumstances they are usually planned for.

Most of the countries investigated have adopted some form of debtor-friendly insolvency regime. Legislation and/or actions of a number of countries that have adopted specific turnaround planning methodology were identified and discussed in this study. Investigations into the South African Companies Act, Act 71 of 2008, established the format of turnaround plans under Chapter 6 of the Act; proceedings which were substantially dealt with in chapter 5 of this research. The literature review confirmed the following similarities between the various debtor-friendly regimes:

- rescue is seen as part of a business process
- there is a clear process for commencing with business rescue
- a person is appointed who is responsible for the turnaround process
- a turnaround plan is central to all turnaround options and has to be sanctioned by creditors.

It is envisaged that the same process will play itself out in South Africa as Chapter 6 of the Act is tested in the courts. It will take the South African courts some time to adjust to the proposed new way of treating ‘bankruptcy’.

What will be of interest is how business is going to react to the debtor-friendly regime and its implication for entrepreneurs and business alike.

This study contributes significantly to assisting entrepreneurs, banker officials and turnaround managers with a framework for approaching turnaround.

8.3 RESEARCH OBJECTIVE

The following objectives were identified for this research:

Primary objectives

- To identify and theoretically define early warning verifier determinants.
- To design and include "verifier determinants" as an integral part of a turnaround plan that supports corrective action.

Secondary objectives

- To research the current formal turnaround practices for verifiers that are applied in the United States of America, Canada, Australia, Africa and the informal practices evident in South Africa. These findings are aligned to include the changes in the applicable South African legislation.
- To design and propose a framework for use by turnaround practitioners and entrepreneurs alike.
- To identify which verifier determinants will confirm the early warning, and apply this outcome to the design of a reliable turnaround framework that is accepted by all creditors and financial institutions.
- To contribute to the South African entrepreneurial, turnaround fraternity, and future formal studies in this academically ill-represented field.

8.4 IN PURSUIT OF THE PRIMARY OBJECTIVE

The research conducted an investigation into various early warning sign constructs and elements, which should become a prerequisite for formal business turnarounds. One of the major changes in the legislation is the stipulation that an attempt must be made to turn around a troubled business before winding up or liquidating the concern. King includes this provision in the King III report (2009) on corporate governance.

The main objective of a turnaround/rescue must be that the entrepreneur and turnaround practitioner together develop a turnaround plan that is specifically designed to reorganise and rescue the business. This research has successfully attained the first primary objective by theoretically defining early warning verifier determinants. In this study a 'verifier determinant' is defined as the 'root' indicator that validates the cause of decline or distress that underscores the early warning sign.

- The literal meaning of verifier is thus to confirm, validate and ensure that the early warning sign identified is, in fact, present.
- The term 'determinant' reflects the agreement or consensus on the warning. sign verifier.

This study used early warning sign theory to establish verifier determinants that can guide entrepreneurs and turnaround practitioners in the timely planning of the current rescue and future sustainability of an enterprise. Verifier determinants, once identified, impact significantly on authenticating warning signs and can be used progressively in the diagnostic phase of the turnaround process. The effectiveness of business turnarounds depends on the chosen strategy, of which the verifier determinants will be an important component.

As soon as they are identified and confirmed, the verifier determinants can assist in defining a turnaround event. Verifier determinants are used to confirm early warning signs, which will be used extensively to confirm causes, verify the correct warning sign and substantiate the issues to consider when compiling a strategic rescue plan. The identification of verifier determinants will also contribute to the uncovering of other hidden critical issues. The use of verifier determinants is essential when attempting to classify the warning signs used in the enormous array of business applications such as operational non-efficiencies. Verifier determinants can contribute to the day-to-day monitoring of the business, if used as a prolonged business activity.

The qualitative research contributed uniquely to the limitations of early warning signs by developing the verifier determinants, each with its own set of variables. Tables 7.10 to 7.14 contain the unique variables that experienced turnaround participants use to guide their decision making through the verification of early warning signs.

8.5 IN PURSUIT OF THE SECONDARY OBJECTIVE

This section now demonstrates that the second objective has been attained by proposing a turnaround framework which includes verifier determinants as an integral part of the turnaround plan. Figure 8.1 proposes verifier determinants as the first step in this plan, during the actual investigation and planning, as well as in the 'setting-up' phase. The verifier determinants, used as an integral departure point in the decision frame, should allow the stakeholders to reach a decision outcome within a very short space of time. Verifier determinants used on a continuum (continuum in a longevity process) throughout the turnaround phase will have the effect of instituting corrective action, as and when strategic change is necessary. The literature dealing with turnaround methods, strategy and processes was comprehensively analysed and is summarised in Appendix C.

The research results confirmed Early Warning sign theory - but expand theory by adding the Verifier Determinant as a construct. Verifier Determinants introduces constructs that provides for illogical, subcontious, and judgemental information that is not conteplated in the current early waring sign theory.

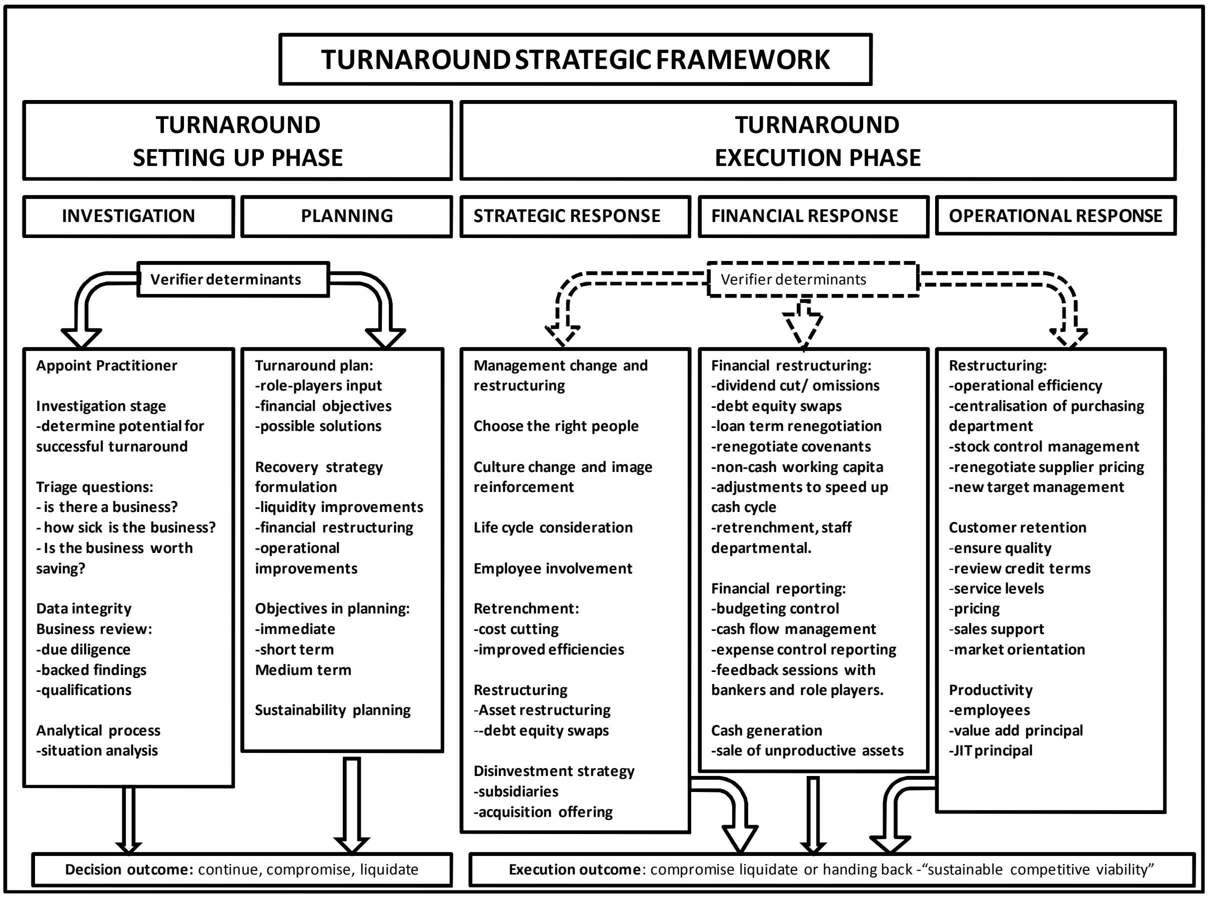

Figure 8.1 Turnaround strategic framework – process view

The framework in figure 8.1 shows the phases of a turnaround, each with its key elements. Verifier determinants are crucial to both the investigation and the planning phases but have also been shown to be valuable (if used) during the response phases. The possible outcomes are shown at the bottom of the figure.

In the literature reviewed, authors tended to concentrate on one or more of the constructs within the turnaround process. Some focus on the investigative stage (section 8.6.1) of the turnaround, while others focus on the implementation (section 8.7) of measures to execute the plan.

The focus of the turnaround framework proposed in this study is to consolidate the various viewpoints. In order to have a successful outcome, all the different constructs must be combined in one turnaround framework and the disciplines must operate in concert. Figure 8.1 illustrates the interaction by way of a flow from the setting-up phase through to the execution phase.

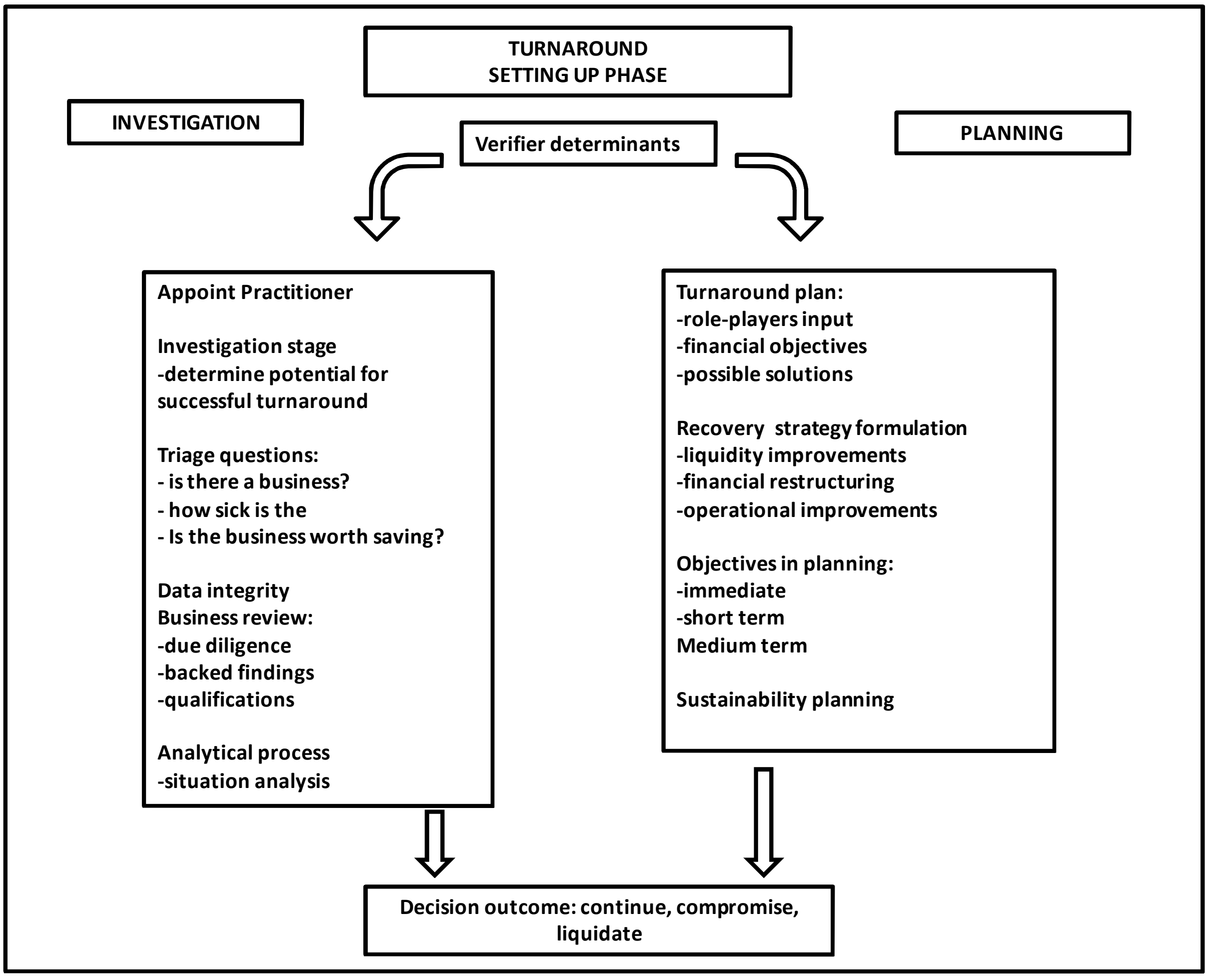

Figure 8.2 Turnaround strategic framework – setting-up phase focus

8.6 THE SETTING UP PHASE

The turnaround framework proposes two distinct phases in a turnaround situation. These phases are the investigative phase and the planning phase, as illustrated by figure 8.2 (abstracted from fig. 8.1). The investigative phase is critical in assessing the business environment once a turnaround situation occurs and during the actual turnaround execution. During this phase it is proposed that the verifier determinant theory will have its main impact on the decision-making process.

8.6.1 INVESTIGATION

Before a turnaround practitioner effects any major changes to the business, he or she must investigate and determine the business's chance (viability) of survival.

The business must appoint a turnaround practitioner within five days of filing the rescue notice at the court and this practitioner then is obliged to embark immediately on an investigation of the company's affairs. The new Companies Act requires that the turnaround practitioner must, as soon as possible, after his/her appointment; report on the turnaround viability of the business. In this initial assessment the use of verifier determinants is crucial to the investigation as they confirm problematic areas in the affected business.

8.6.1.1 Triage questions

In order to determine the potential for successful turnaround, the practitioner will have to do a quick assessment of the distressed business. What the turnaround framework proposes is that an assessment of the business is carried out by using the concept of triage, which was explained in section 1.3.

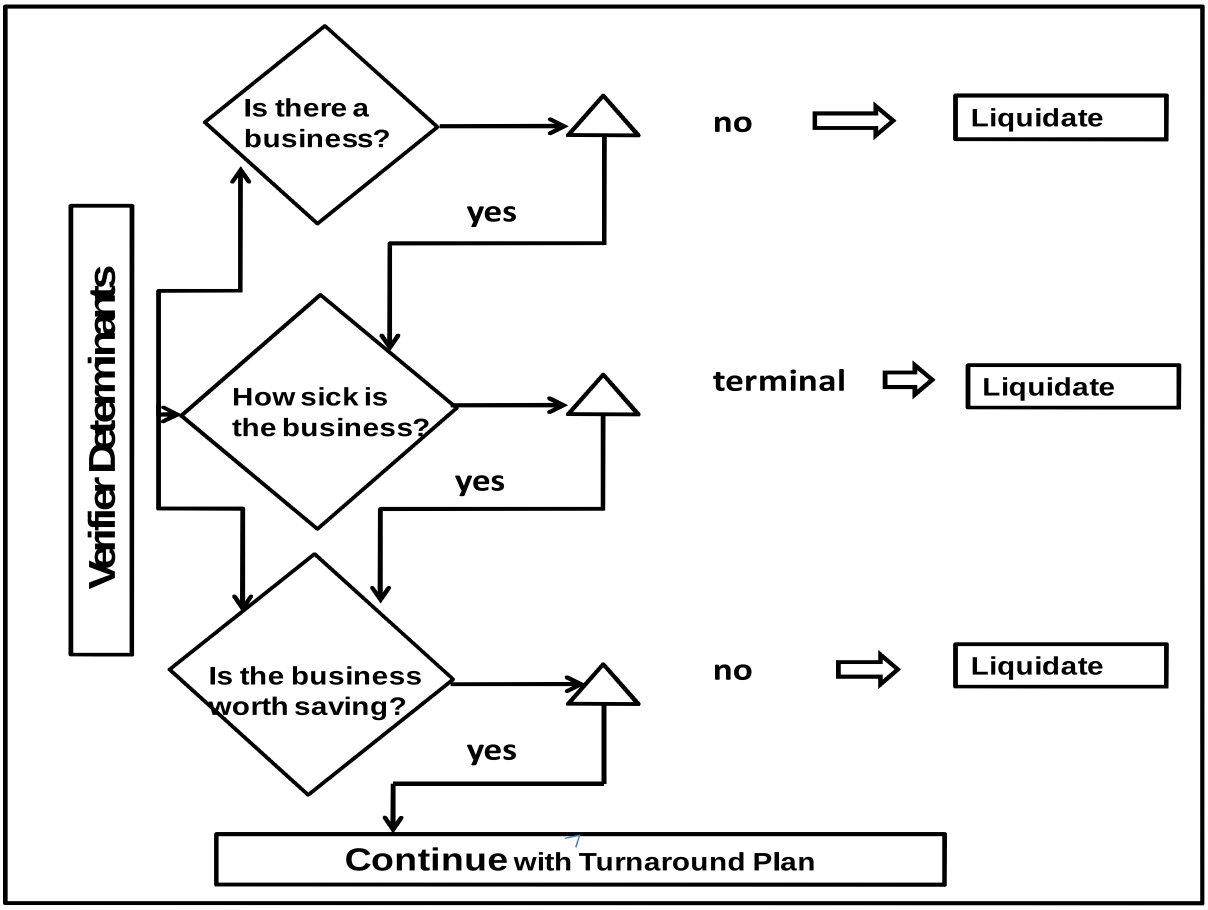

Figure 8.3 Role of verifier determinants in the triage process of the investigative phase

The answers to the following questions in the triage sequence are important:

- Is there a business?

If the answer is no, then liquidation is inevitable.
If the answer is yes, the health of the business has to be determined by asking the next question:

- How sick is the business?

If the business is terminal, then a compromise or liquidation is probably inevitable. If business health can be restored, the next question is then important:

- Is the business worth saving?

If a rescue is attempted, it should restore sustainable competitive viability.

8.6.1.2 Data integrity and verifier determinants

The practitioner will rely on information supplied by the business's management. Accordingly, it is proposed that, in testing the information's integrity, verifier determinants are used as an indicator for concentrating the focus on problem areas.

A sound knowledge of the financial statements, the business's tax position and any failed strategy is vital for achieving turnaround success. Hence, verifier determinants confirm the integrity of the data to be used in a turnaround.

8.6.1.3 Business review and verifier determinants

It is proposed that the verifier determinants will focus the business review. By identifying verifier determinates the practitioner can focus on the problematic areas identified through the verifier process. Consequently, an adequate business review will have to be conducted in order to persuade stakeholders to agree to the practitioner's proposal.

The minimum requirements of the review will be a proper due diligence, backed with findings and qualifications. In doing this, a proper analysis process will have to be followed and proposed as a situation analysis. In order to save time, verifier determinants are used to examine the situation quickly before a detailed due diligence is done. A due diligence process comprises the following:

- feasibility assessment with stress testing
- forecasts
- sustainability after rescue process
- corporate governance
- data integrity
- simulations, such as Monte Carlo simulation

8.6.1.4 Final decision

The final decision in the investigative stage is to whether to continue or not with a turnaround of the business. Alternatively, a compromise may be entered into with the affected persons, or the business may be liquidated. If the viability of a business is suspect, liquidation is probably inevitable. If the decision is to continue with the business turnaround the practitioner and management will enter the planning phase. The verifier determinants will direct the planning towards the most salient causes of distress which need to be addressed in the plan.

8.6.2 PLANNING PHASE

With reference to section 5.7 of this study, Section 150 of Chapter 6 of the new companies Act stipulates the minimum requirements for a business rescue plan. Accordingly, figure 8.2 illustrates the planning phase and elaborates on the various actions that need to be carried out. Chapter 6 of the new companies Act is, however, prescriptive on the content of the rescue plan, the minimum requirements for which are set out and illustrated in figure 8.3.

8.6.2.1 Turnaround plan

Verifier determinants are of the utmost importance, as they will dictate the level of the role players input, the financial objectives and the possible solutions. The turnaround practitioner must prove to the body of affected persons that a turnaround is viable and that it will save the business. Of secondary importance is whether the creditors will be in the same or a better position after a turnaround than if the business is liquidated.

Verifier determinants will, for example, be used in Part A to support one of the sources of information, such as a dividend distribution. In Part B, the verifier determinant will support proposals by highlighting the required proposal.

8.6.2.2 Recovery strategy formulation

The recovery formulation strategy needs to illustrate measures that will lead to liquidity improvements, objective financial restructuring and operational improvements.

8.6.2.3 Objectives in planning

The turnaround objectives must include immediate, short-term and medium-term targets. These targets must be obtainable in order to ensure buy in from the affected bodies. The primary objective of the plan is to prove sustainability during and, especially, after the turnaround.

8.6.2.4 Decision outcome

After compiling the plan, the practitioner must distribute it to all the affected persons who will have to vote for or against the plan. The plan should contain sufficient information for making a decision on whether or not to continue with a turnaround attempt. The comprehensiveness of the information in the plan should guide stakeholders either to opt for a compromise or to liquidate the business.

8.7 TURNAROUND EXECUTION PHASE

Action taken in the execution phase of a turnaround will be predominantly dictated by the business and industry in which the turnaround is being executed. Accordingly, a host of variables and preconditions may influence the strategy to be followed. The framework proposed in this study identifies the use of three response constructs, namely, strategic, financial, and operational/market responses.

Appendix C summarises the various actions, strategies and steps that can help to effect a successful turnaround. The most important responses are illustrated in figure 8.4 (abstracted from fig. 8.1). A turnaround response does not necessarily proceed in a specific sequence; in reality everything happens more or less at the same time.

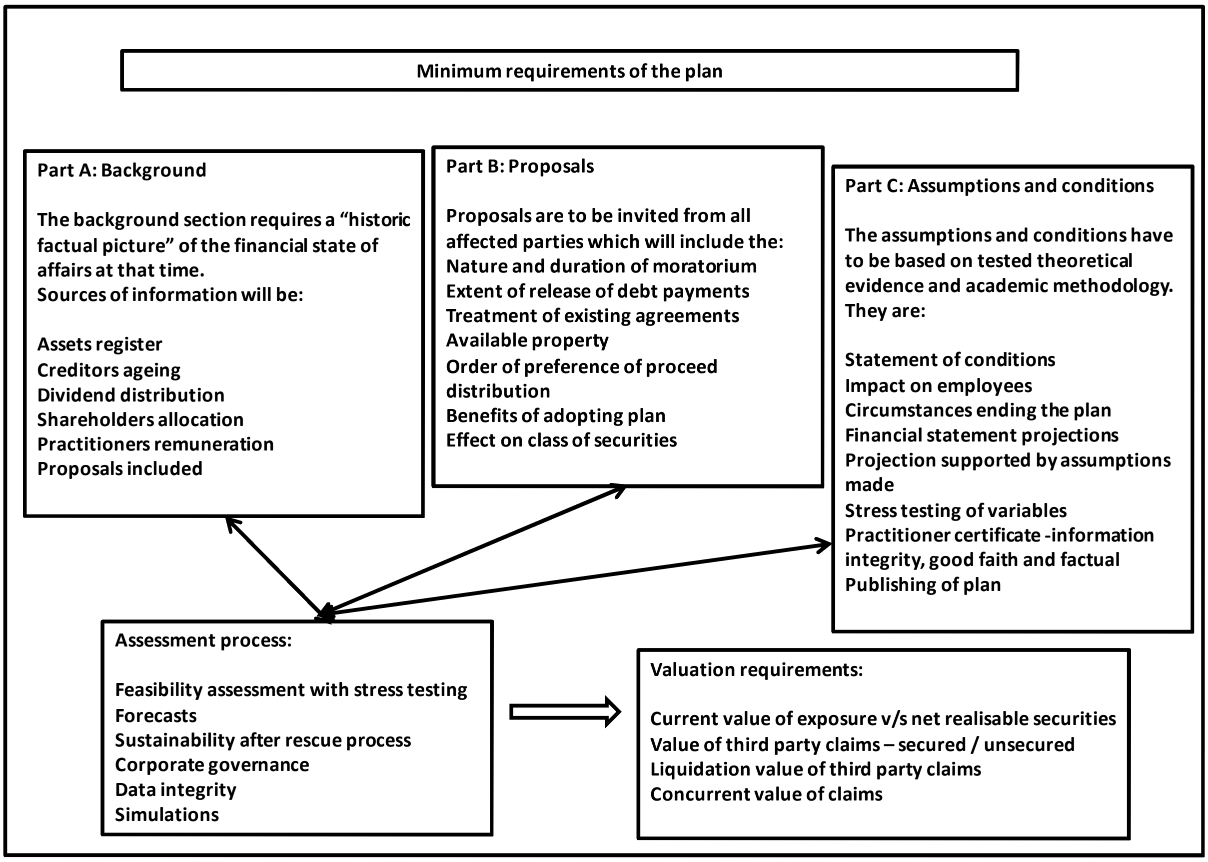

Figure 8.4 Turnaround plan – framework

The main critical actions are proposed in the framework, namely, strategic, financial and operational responses. The discussion is limited to the three main responses, as each type of business will have to adapt to its own unique environment, level of resources and conditions.

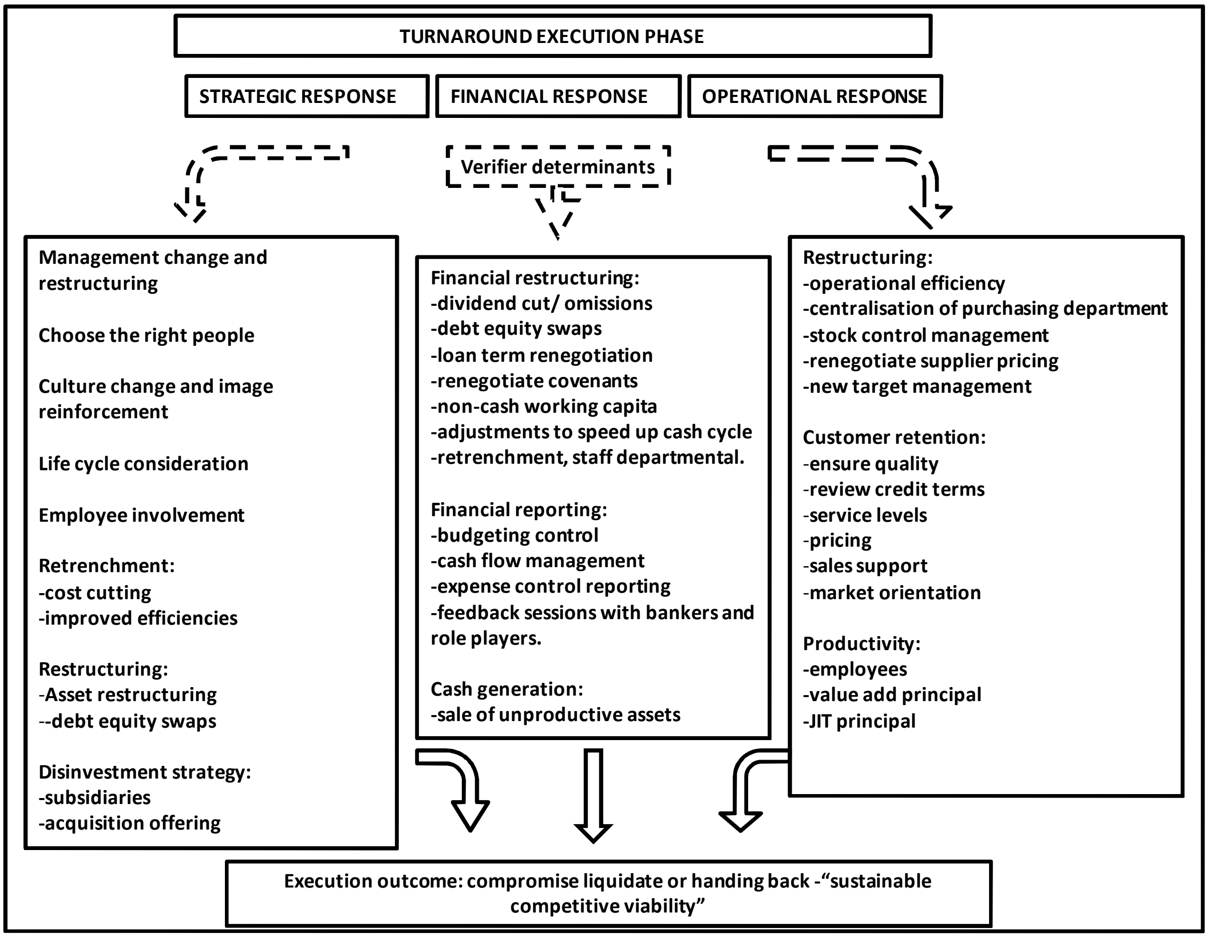

Figure 8.5 Turnaround strategic framework (own compilation)

8.7.1 STRATEGIC RESPONSE

The strategic response framework proposes a change in the top management structure of the business, as it is imperative that this structure complements the turnaround objectives. A change in CEO is almost inevitable, as a turnaround practitioner is required to lead the business through the turnaround intervention. The new Companies Act sees this intervention as being of a temporary nature – three to six months. As an outsider, the turnaround practitioner should add autonomy to the turnaround process.

During the second stage of planning, the right people must be chosen to fill the key critical positions, that is, the hunt for heroes in the business – people who can make things happen. Culture change and image reinforcement is crucial at this stage to reinforce confidence in the affected parties, especially the staff. Culture change is enforced as a consideration for the revival of the business life cycle..

In terms of response, the verifier determinants play a significant role as the turnaround unfolds and new information surfaces. Subsequently, the verifier determinant process is repeated as new data are uncovered. This stage of the turnaround process would suggest that employees are involved in order to ensure as smooth a transition as possible.

8.7.2 FINANCIAL RESPONSE

When attempting to find a financial solution, financial restructuring is unavoidable. Creative financial re-engineering will see dividend cuts, debt restructuring and, certainly, long-term debt renegotiation. It is also important to maintain existing alliances with trade creditors. In the South African context, staff retrenchments are a very sensitive issue and should only be considered as a last resort. This places an additional burden on the practitioner as employees are “affected persons” in terms of the new Companies Act.

Foremost in any financial action plan is that immediate steps should be taken to generate cash, for example, unproductive assets should be sold. In addition, financial reporting before and during the turnaround is essential for feedback, transparency and decision making. The following information is critical:

- budgeting control statements
- cash flow management projections
- expense control reporting analysis.

8.7.3 OPERATIONAL RESPONSE

The operational response includes all the necessary steps that have to be taken to retain and protect the business's client base. To be able to do this, practitioners must liaise with the client base and sort out any problems regarding quality, service levels, sales support and market orientation.

Actions to restore operational efficiency should be carried out immediately. This can be done by centralising the purchasing department and stock control management.

8.7.4 EXECUTION OUTCOME

Once the turnaround plan has been substantively implemented (the execution phase), the outcome is ideally to hand back the business. Failing this, the practitioner will have to negotiate a compromise with the stakeholders. It all else fails, the outcome is unfortunately liquidation.

The main objective of a business turnaround is the restoration of the business to sustainable competitive viability.

8.8 BENEFITS OF THE STUDY

This research has contributed to the process of turnaround management through the following potential benefits:

Major direct benefits of the verifier determinants' research:

- Verifier determinants confirm early warning signs. They are used as an analysis tool for enhancing turnaround decision making – they act as a confirmation.

- The proper application of verifier determinants can lead to
  - confidence in the turnaround decision-making process

- identification of verifier results in problem understanding
- a system for decision making
- less time being spent on rejecting or accepting turnaround decisions
- less probability of turnaround practitioners making type I or type II errors
- a focused approach to resource allocation and efficiency management
- the acceptance of overall turnaround strategy.

Indirect benefits of the verifier determinants' research:

- Verifier determinants hone the judgement of the managerial team.
- They ensure the buy in of other role players (affected persons) – organised labour, trade creators etc.
- Early warning systems can be very useful for those managers and practitioners who have to prevent failure.
- Verifier determinants blend information for use in an intelligent, strategic decision in the form of a business review.
- The reasons for turnaround are confirmed by proper analysis.
- Help failed entrepreneurs who want to re-enter business.

8.9 LIMITATIONS OF THE STUDY

Owing to the limitations placed on financial institutions concerning third-party confidentiality, the study sample was limited to one financial institution where the security, integrity of the data and anonymity of the sources could be controlled; consequently, this has limited the extent of the sample groups.

A more comprehensive search including other financial institutions would have been desirable but here is no reason to suspect that different data would have been collected just because it was another institution. The specialists participating in the interviews have substantial exposure to other banks.

Seventy percent of the specialists have work experience in other financial institutions. The questionnaire response rate of 45% was, taking into consideration the ‘captured’ population within which the research was conducted.

During the same period in which this research questionnaire was distributed, various in-house research projects were launched (forced) which resulted in possible questionnaire fatigue among the respondents, which could have had an impact on the results. The low response rate, however, negatively affected the options for factor analysis and statistical calculation, as the sample was too small for extensive analysis.

The turnaround practitioner fraternity was significantly unhelpful. Most of the practitioners who were approached to participate with the research were sceptical, evasive and suspicious. Knowledge is seen as proprietary and as a trade secrets, which is not shared with or disclosed to ‘competition’. The extensive interviews with the specialists took over three hours per interview. Although extensive notes were taken and discussion took place to identify verifier determinants, much of the detail such as body language, action and reaction were not captured.

8.10 FUTURE RESEARCH

The field of business turnaround or business rescue is wide open for research owing to its uniqueness as a new management discipline in South Africa. Turnaround management encapsulates a host of disciplines such as accounting, income tax, legal and project management. A great challenge for future studies will be to include more financial institutions in the population.

As banks are working closer together through the application of INSOL principles, there is an opportunity to involve other financial institutions in similar research. The following areas for future research identified by this research have potential:

- the correlation of verifier determinant concept and data integrity

- a longitudinal study on the use of verifier determinants in a decision framework
- Verifier determinants can be used with great success in building neural networks for turnaround situation prediction. In cognitive science, neural networks are used to model higher level reasoning such as problem solving, and, in lower level reasoning, for modelling elements such as vision and speech.

8.11 CONCLUSION

This study highlighted the importance of establishing the true value of a business in the early stages of the turnaround process. Verifiers can be used successfully to determine the extent of the problem ("depth of the rot"), the difficulties involved and the lack of financial control. When verifiers are used, it can alleviate the time constraints in a turnaround situation by assisting to assess the real situation quickly. Verifiers will lead to a better understanding of the cause of decline or distress and will be beneficial for coping with the psychological effects on managers/owners and personnel.

If identified correctly, verifiers can be the key variables when deciding if a turnaround is feasible or not. As a result of having a better understanding of the business using the identified verifiers, the ultimate costs of a turnaround should be determined in a relatively short period. The most important part verifiers need to play is to prevent decline and distress in businesses. Some verifier determinants can contribute to the day-to-day management of a business if used as a management tool on a continuum.

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APPENDIX A: EARLY WARNING SIGNS CATEGORIES

AUTHOR	DATE	EARLY WARNING SIGN CATEGORIES			
		MANAGEMENT	**STRATEGIC**	**FINANCIAL**	**PRODUCT/MARKET (OPERATIONAL)**
Altman, E.I.	1968			five ratios used: Working Capital / Total Assets (WC/TA) Retained Earnings / Total Assets (RE/TA) EBIT / Total Assets (EBIT/TA) Market Value of Equity / Book Value of Total Debt (MVE/BVA) Sales / Total Assets (S/TA) Create Z-score modelling (Z).	
Argenti, J.	1969		continued survival		
Akerlof, G.A.	1970	importance of skills in management and production			product quality in emerging markets.
Argenti, J.	1976	management defects autocratic style no non-executive board members chief executive also company chair skills and knowledge - unbalanced financial function not represented or weak insufficient depth of management skill below board level		liquidity ratio deteriorate, leverage raises, overtrading, sales vs. financial asset decline, cash flow vs. debt, price earnings ratio, excessive dividends.	non-financial; product quality falling, offices need painting, factory repair neglected, share market fall, suspicious suppliers, restricted delivery.
Carrington, J.H. and Aurelio, J.M.	1976	managerial incompetence managerial deficiencies		inadequate cash to cover liabilities.	
Hedley, B.	1976		failure to reduce costs along an appropriate experience curve slope failure to grow as rapidly as competirors leading to uncompetive cost position		

Altman, E.I., Haldeman. G. and Narayanan.	1977			Adjustment to Z-score model - balance sheet to include: Capitalization of leases Reserves and contingencies Minority interest and other liabilities Captive finance companies and other non-consolidated subsidiaries Goodwill and intangibles Capitalized research and development costs Capitalized interest and certain other deferred charges.	
Hamermesh, R.G.	1977	managerial commitments management style	organizational structure complexity of markets		
Higgins, R.C.	1977	management style	understanding of growth	increased debt	
Miller, D.	1977	behaviour of managers power-hoarding chief executive one or two people afraid to delegate managers decisions reflects ignorance signs of leadership vacuum decisions in one part of the business conflict with those in other parts serious shortage of financial, managerial or material resources new and inexperienced management team	growth strategy overly ambitious, overextension of financial resources, excessive leverage, no strategic planning. poorly defined product - market strategy, tendency to be committed to old products, markets and ways of doing things, elaborate standard operating procedures and extensively documented formal policies, strategy taxing on businesss resources.	failure caused within company, excessive leverage, serious shortage of financial,	serious shortage of financial, managerial or material resources,
Miller, D.	1977	2) behaviour of managers, 3) power-hoarding chief executive, 4) one or two people afraid to delegate, 8) managers decisions reflects ignorance , 13) signs of leadership vacuum, 14) decisions in one part of the business conflict with those in other parts, 5) serious shortage of financial, managerial or material resources, 16) new and	failure caused within company, growth strategy overly ambitious, overextension of financial resources, no strategic planning. poorly defined product - market strategy, tendency to be committed to old products, markets and ways of doing things, elaborate standard operating procedures and extensively documented fromal policies,	overextension of financial resources, excessive leverage,	

		inexperienced management team,	strategy taxing on businesss resources.		
Altman, E.I. and Eisenbeis, R.A.	1978			Discriminant Analysis and five z-SCORE ratios Working Capital / Total Assets WC/TA) Retained Earnings / Total Assets (RE/TA) EBIT / Total Assets (EBIT/TA) Market Value of Total Debt (MVATD) Sales / Total Assets S/TA).	
Graham, K.R. and Richards, M.D.	1979		performance deterioration coalition change presidential change diversification divesture		
Al-Bazzaz, S. and Grinyer, P.M.	1980		strategic planning size of company higher vertical span of control lateral span of control divisional structures higher status of company in group hierarchy number of dispertion of sites difficulties in communication, co-ordination and control difficulty in response to environmentl change		
Hall, W.K.	1980		slow erratic growth		inflationary pressures regulatory pressures competition
Hofer, C.W.	1980		decreased profit margins increased wages increased competition raw material supply management difficulties		operational signs: depressed price levels recessions strikes and labour excess plant capacity

Sharma, S. and Mahajan, V.	1980			finacial ratios (descprition of financial performance indicators Profitability return on assets (ROA) leverage ratios debt service: earnings before interest and taxes/interest coverage (EBIT/IC) - cash flow: cash flow/total debt (CF/TD) - capitalization: market value of equity/total capital (MVE/TC) liquidity ratio current ratio: current assets/current liabilities (CA/CL) cash turnover: net sales/cash (NS/C) receivables turnover: net sales/receivables (NS/R) inventory turnover: net sales/inventories (NS/I) sales per dollar working capital: net sales/(current assets-current liabilities) (NS/(CA-CL)) miscellaneous retained earnings/total assets (RE/TA) total assets (in thousands of dollars) (TA)	
Gelb, B.D.	1982		strategic alignment to change		
Hubert, T.	1982	role by management		financial ratio: paid-up capital/total liabilities financial ratio; working capital/total liabilities	
Izan, H.Y.	1982			traditional financial ratio analysis industry comparative techniques financial ratios	
Altman, E.I.	1983		business population characteristics price level changes. age of business one to five years.	credit availability, capital market activity,	economic growth activity,
Chrisman, J.J., Bauerschmidt, A. and Hofer, C.W.	1982	entrepreneurial	business strategy resources organizational structure		industry structure

Dolan, P.F.	1983	bad management	the domino effect.		changes in federal reserve policy recession reducing demand interest rate hikes structural change in economy higher fuel costs lower productivity growth rates intense international competition rapid change in new technology deregulation of certain industries less government support international shift in comparative advantage appreciation in currency
Hambrick, D.C. and Schecter, S.M.	1983		early warning signs:(tested in practice) domain initiatives enviromental carrying capacity slack perfromance		
Hamer, M.M.	1983			Financial ratio analysis profitability net income/total assets income before interest and taxes/ total assets internal rate of return to investor in common stock funds from operations/total liabilities liquidity working capital/ total assets current assets/current liabilities current liabilities/current assets current aassets/total assets quick assets/total assets cash/total assets quick assets/current liabilities cash/current liabilities quick assets + sales/12 devided by (operating expenses+ interest-amortizations)/12 net quick	

				assets/inventory	
Hamer, M.M.	1983			**leverage** total liabilities plus preferred stock/totl assets total liabilities/total assets tangible net worth/total liabilities plus preferred market value of common & preferred stock/totalliabiliites market value of common equity/total liabilities plus preferred retained earnings/total assets negative owners equity turnover sales/total assets current assets/sales quick assets/sales working capital/sales cash/sales variability std deviation of net income trend breaks in income slope of net income std dev of net quick assets/inventory trend breaks in net quick assets/inventory slope of net quick asets/inventory income (t) - income (t-1)	
Altman, E.I.	1984	managerial incompetence, lack of management experience unbalanced experience neglect.		under capitalization, bad debts	slowdown of sales, directly due to other bankruptcies, indirectly due to other bankruptcies excessive equipment investment.

Anderson, C.R. and Zaithaml, C.P.	1984		industry, product competition, R&D, production/ investment, efficiency, vertical integration marketing.		distress variables: buyer loyalty, degree of product differentiation, price elasticity of demand, market share, product quality, marginal plant size, declining importance of advertising, product diversification, decline in number of outlets contingency approach - strength and weaknesses. spending patterns, efficiencies and growth decisions.
Appetti, S.	1984			liquidity, turnover, gearing, operative structure and capitalization and profitability.	
Izan, H.Y.	1984		industry comparitive techniques	traditional financial ratio analysis financial ratios	
Müller, R.	1985		trategic crisis: threats to potential of the business	Liquidity crisis: threat of Insolvency bankruptcy, dissolution: threat of dissolution, inability to satisfy creditors and shareholders	perfromance crisis: failure to achieve sales and financial targets
Sahlman, W.A. and Stevenson, H.H.	1985		risk in innovation materialize	which effects capital availability and reduces expenditures on future development	customer disapointments foater conservative stance exposure customer financial weakness exposure supplier financial weakness which increased competitive pressure to find the winners which changes basis of competition to price which lowers margins which causes more risk of innovation to materialize.
Schmalensee, R.	1985				market share
Schwartz, K.B. and Menon, K.	1985	management (poor)			
Seabright, J.W.	1985				poor quality poor customer service no control on parts poor packaging no control over manufacturing

Hurst, D.K.	1986		strategic management		
O'Neill, H.M.	1986	poor management management error	business life cycle excessive labour costs growth strategies cyclical patterns political nature		competitors suppier arrangements lead to decline change in habits of consumers choice of substitudes insufficient or ineffective professional groups
Robinson, S.J.Q. and Shell UK Ltd.	1986		business life cycle		
Schwartz, K.B. and Menon, K.	1986	management			
Singh, J.V., Tucker, D.J and House, R.J.	1986		liability of newness legitamacy		
Cameron, K.S., Whetten, D.A. and Kim, M.U.	1987	scapegoating resistance to change low morale loss of credibility no prioritized cuts conflict decline /stability/growth type of control	turnover path of organizational decline centralization no long-term planning innovation curtailed size		loss of slack fragmented pluralism
Keasey, K. and Watson, R.	1987	managerial structure inadequacy of accounting information system and audit lags manipulation of the financial statements, submission logs, audit qualifications and changes in auditors		gearing financial ratios	
Littler, D.A. and Sweeting, R.C.	1987		survival and growth		
Lorange,P. and Nelson, R.T.	1987	excess personnel tolerance of incompetence cumbersome administrative procedure disproportionate staff power replacement of substance with form scarcity of clear goals and decision benchmarks fear of embarrassment and conflict loss of effective communication.			

Siomkos, G. and Shrivastava, P.	1987				declining demand
Whetten, D.A.	1987		growth and decline processes life cycle growth factors		
Whitney, J.O.	1987	cash managemnent		cash managemnent	
Bruno, A.V. and Leidecker, J.K.	1988	managerial /key employee ineffective team personal problems one track thinking cultural / social violated job displacement norm		initial under capitalization, assuming debt to early, venture capital relationship.	Product / Market timing, design, distribution/ selling, business definition, overreliance on one customer.
Chrisman, J.J., Hofer, C.W. and Boulton, W.R.	1988		early warning signs variables entrepreneurial industry structure business strategy resources organizational structure		
Hambrick, D.C. and D'Aveni, R.A.	1988		domain initiatives enviromental carrying capacity slack performance		
Lieberman, M.B. and Montgomery, D.B.	1988			need for profit	
Melicher, R.W. and Hearth, D.	1988			monitoring of fluctuations on bond costs	
Quinn, J.B., Mutzberg, H. and James, R.M.	1988		historcal strategies and policies placed comany in unstable position reinvestment strategic mistakes		external uncontrolables
Robertson, J. and Mills, R.	1988			financial ratios = Z-score	
D'Aveni, R.A.	1989	managerial decline - different phases sudden decline gradual decline lingering decline			
Eisenhardt, K.M.	1989	rationality and bounded rationality weakness conflicting goals, local rationality, atisfying,problematic search, SOPs, decisions process rational and bureaucratic, phases of decision making in no order;			

		conceptual structure for decision process, examples of poor and effective decision making, "groupthink negative", managers don't follow normative process; various decision processes; solution driven decisions.			
Gilmore, T.N. and Kazanjian, R.K.	1989		rapid growth and inability to navigate.	cash flow.	growth problems, production, talent, planning and control,
Romaneli, E.	1989		interaction of environment and strategies.		availability of resources, demand and competitive conditions, resource constraints, competitive concentration, market breadth, market aggressiveness,
Thain, D.H. and Goldthorpe, R.L.	1989	inadequite infromationand controls negative characteristics of management	unwise financial policies unsuccessful, high risk, major projects		high costs relative to competitors ineffective marketing decrease in market demand adverse input costs industry decline caused by high cost increased competirion
Covin, J.G. and Slevin, D.P.	1990		fit between strategic posture, organization structure and industry life cycle.		
Grinyer, P.H., Mayes, D. and McKierman, P.	1990			high gearing,	superior competitors, labour cost and quality, poor production, capacity constraints.
Kazanjian, R.K. and Drazin, R.	1990		stages of rate of growth.		

Okuzumi, H.	1990		difficulties in maintaining conformity lack of linkage between strategic business units difficulties in setting evaluation standards for qualitative targets lack of effective fusion between strategic issues and everyday operations lack of system for evaluationg degree of strategic effect attainmant lack of smooth resource allotment in strategy promotion		
Boyle, R.D. and Desai, H.B.	1991	organizational structural change, failure to manage success, poor delegation of responsibility, inability to transcend stress points. Human resources, key employees quits, inability of owner to perform planning and administrative functions. External - strategic. human resources, inability of owner to perform planning, administrative functions, lack of product / market knowledge.	planning. over optimism in planning , lack of strategic planning, lack of market information.	Financial Impact, failure to analyze financial statements, inadequate capital management, improper management of accounts receivable, declining profits, underutilization of assets, pricing, discounts for cash generation. large increase in debt, raw materials , Wip, inventories, excessive spending.	Sales /Marketing, declining market share, drop in prospects, losing biggest accounts. economic downturn.
Castrogiovanni, G.J.	1991				Environmental munificence
Gopal, R.	1991	poor quality top management weak board conservatism in management excessive complacency premature corporate expantions	weak financial management policies unacceptable market prices and costs postponement or cancellation of major contracts		decrease in market demand changes in government policies and regulations increased competition increased input costs non-availability or shortage of raw materials inadequite insurance for losses
Keasy, K. and Watson, R.	1991	management structure		financial ratios inadequacy of accounting manipulation of published accounts gearing	

Kelly, D. and Amburgey, T.L	1991		change in strategic orientation environmental change and the probability of change in core features organizational age and the probability of change in core features organizational size and the probability of change in core features prior change in core features and the probability of change in core features.		
Pousson, J.	1991			Financial deterioration: sales slow or down margins and/or profit down costs out of line rising stock financial performance generally disapointing cash trends disturbing creative accounting off-balance sheet financing qualified audit statements delayed financials	
Weitzel, W. and Jonsson, E.	1991	management early but unclear management stages in decline blinded inaction faulty action crisis dissolution			
Baum, J.A.C. and Mezias, S.J.	1992				Focus on localised competition and failure.
Bruno, A.V., McQuarrie, E.F. and Torgrimson, C.G.	1992	managerial /key employee, ineffective team, personal problems, one track thinking.	cultural / social, violated job, displacement norm.	initial under capitalization, assuming debt to early, venture capital relationship.	Product / Market timing, design, distribution/ selling, business definition, overreliance on one customer.
Chinta, R.	1992	deviation from agreed sales plan tunnel vision - management resistance to change assive board	technology under development - unworkable passive board expenditure control.		
Majaro, S.	1992		strategic		
Robbins, D.K. and Pearce II, J.A.	1992	top management	overexpansion excessive leverage		

Amburgey, T.L., Kelly, D. and Barnett, W.P.	1993	resistance to change, frequency of change, too many as opposed to too little, routinisation, age,	resistance to change, frequency of change, too many as opposed to too little, routinisation, age, change and older businesss, change and younger businesss, time frame between change, change due to perceived problems, change despite dysfunctional consequences - competency trap.		
Anon.	1993	management not responding to phone calls,		financial symptoms; rise in overdraft, slowdown in payables, deterioration in the following ratios liquidity, profitability, leverage, efficiency, activity - and turnover ratio. data integrity.	non-financial symptoms; declining market share, fall in product or service quality, postponement of factory maintenance, negative reports n press, lay-off due to sales decline.
Castrogiovanni, G.J., Justis, R.T. and Julian, S.D.	1993		location age size		
Gaskill, L.R., Van Auken, H.E. and Manning, *R.A.*	1993	management - lack of insight, inflexibility, emphasis on technical. inadequate knowledge of pricing strategies, ineffective advertising/promotional strategy, failure to generate long term business plan, failure to generate personnel plan, ineffective interior store layout pattern, lack of managerial experience, skills and training, inflexible decision making, lack of experience in product line, failure to generate a merchandise assortment plan, poor relations with vendors,			difficulties in receiving merchandise, inability to compete in trading area, failure to offer saleable merchandise assortments, premature business growth/overextension, inventory difficulties.

Moncarz, E.S. and Kron, R.N.	1993	fraud experience causes incompetent management	neglect causes obsolescence of building, property and equipment fraud experience causes incompetent management strategy causes overexpension	buredensome instutional debt heavy operating expenses insuffcient capital	economic factor causes economic slowdown increased competition presures industry weakness inadequite sales
Pearce II, J. A. and Robbins, D.K.	1993	management inefficient management insufficient financial resources poor turnaround strategy	decline caused by strategic responses absolute products intense price competition		focus on growth decline caused by operating problems production bottlenecks labor strife cost control plant modernization
Terpstra, D.E. and Olson, P.D.	1993		types of problems: conceptualizing and systematic study of distinct problem types.		
Altman, E.I., Marco, G. and Varetto, F.	1994		corporate distress diagnosis		
Fredenberger, W.B. and Bonnici, J.	1994		life cycle stage,		faltering demand.
Holtz-Eakin, D., Joulfaian, D. and Rosen H.S.	1994		growth entrepreneurial profile	liquidity constraints.	
Mitchell, W.	1994		size age product life cycle		
Pearce II, J. A. and Robbins, D.K.	1994				decreased profit margins increased wages increased competition raw material
Platt, H.D. and Platt, M.B.	1994	poor planning during development phase limited capital base	corporate dependency	inadequite managerial abilities	
Richardson, B., Nwankwo, S. and Richardson, S.	1994	psychological impact of decline			

Altman, E.I. and Eom, Y.H.	1995			drop-off in growth, leverage ratio; debt/equity newly listed companies. Twenty financial ratios identified; EBIT/TA NI/TC, Sales/TA, LOG(Sales/TA), Sales/TC, EBIT/Sales, NI/Sales, LOG(TA), EBIT/INT, LOG(EBIT/INT), CF/TL, WC/LTD, Current ratio, WC/TA, Retained Earnings/TA, Book Equity/TA, Normalised Quick Ratio, EBIT/SIGMA, Book /Equity/TL market Equity/TL.	
Arogyaswamy, K., Baker III, V.L. and Yasai-Ardekani, M.	1995		decline - stemming strategies that reverse the dysfunctional consequences of decline, recovery strategies that position the business to better compete in the industry.		
Brinkenhoff, R.O. and Montesino, M.U.	1995	skills transfer			
Datta, S. and Iskandar-Datta, M.E.	1995	management / labour reasons ambitious expansion various managerial blunders labour costs	litigation reasons avoiding lawsuits litigation judgement other reasons changes in financial reporting violations fraud miscellaneous no reason	failure of financial structuring unable to obtain financing liquidity / cash flow shortage heavy debt involuntary filing creditors lawsuits creditor pressure to file	Market reasons industry/ market slump competition high interest rates inability to sell assets
Gopinath, C.	1995	management,	growth,		operating, growth, sales related.

Grundy, T.	1995	cost management, change management,	mission and objective driven strategy, creepy business complexity, tactical pricing, investment decisions, acquisitions, denial of corporate error.	over-commitment,	product/ brand and technology.
Lussier, R.N.	1995	industry experience management experience planning professional advisors education staffing	age partners minority marketing	capital record keeping and financial control	product/service timing economic timing
Singer, B.	1995	poor management management error	strategy environment industry structure		
Taggart, J.H.	1995		life cycle cash strapped "dogs" three dimensions type of change in niche configuration continuity of enviromental change structural competitiveness		
Banfield, P., Jennings, P.L. and Beaver, G.	1996	poor managerial competence: staff related warnings; lack of personal and job flexibility, creation of personal comfort zones, breakdown in personal relations, lack of clarity in job responsibilities, absence of team work and shared responsibilities, individual rather than company representation.			
Dimitras, A.I., Zanakis, S.H. and Zopounidis, C.	1996			Focus on financial ratios (493, 508) and cost of failure (487)	
Grafstrom, J.	1996	management system for credit risk			

Jo, H. and Lee, J.	1996	entrepreneurial/ management education education managerial experience entrepreneurial experience start-up experience functional area experience experience in the line of business high-growth experience management level growth rate of employees	entrepreneurial experience categorised: entrepreneurial characteristics management strategy environment	return on assets return on sales return on employees growth rate of assets	
Lussier, R.N.	1996	industry experience management experience planning professional advisors education staffing	economic timing age partners minority marketing	capital record keeping and financial control	product/service timing economic timing
Theng, L.G. and Boon, J,.W.	1996	entrepreneurial/ management education education managerial experience entrepreneurial experience start-up experience functional area experience experience in the line of business management level endogenous factors personal shortcommings short-sighted view lack of knowledge lack managerial experience and skill lack of initiative lack of vitality and enthusiasm lack of entrepreneurial judgement	high-growth experience growth rate of assets growth rate of employees	lack of capital lack of cash flow analysis lack of budgets and forecasts return on asset return on sales return on employees	inappropriate marketing strategy low labour producivity
Theng, L.G. and Boon, J,.W.	1996				high taxes recession tight labour market high labour cost and high interest rates competition government regulations

Altman, E.I. and Narayanan, P.	1997			three variables identified; sales/debt, net earnings/total assets long term debt/total debt. ratios used in failed business testing; asset turnover, current ratio, changes in working capital, sales/non-bank working capital, leverage, Inventory/bank debt, bank debt/total debt, long-term debt/total debt, accounts receivable + inventories/accounts payable + spontaneous sources), inventory turnover, rate of return, sales/debts retained earnings/total assets.	
Daily, C.M. and Johnson, J.L.	1997	management CEO Ceo structural power CEO ownership prestige power expert power			
Gimeno, J, Folta, T.B., Cooper, A.C. and Woo, C.Y.	1997	management considerations and human capital.			
Morris, M.H., Williams, R.O., Allen, J.A. and Avila, R.A.	1997		differant set of dynamics dictates failure in a family business.		
Mueller, G.C. and Barker III, V.L.	1997	management.			
Teece, D.J., Pisano, G. and Shuen, A.	1997		strategic management		
Winn, J.	1997		excessive growth		

Al-Shaikh, F. N.	1998	management weakness, technical incompetence, lack of interpersonal skills, lack of management and business exposure.	strategic weakness, lack of clear strategy and direction, inability to respond to change and to recognise new competition taking on to much at a time.	lack of understanding financial impact, key strategic decision, inadequate financing, too much debt	uncertainty in region, privatisation, technological environment and infrastructure lagging behind, government policies and bureaucracies, shortage of capital, shortage of managerial and skilled labour background, qualification and motivation of owners.
Ariño, A. and de la Torre.	1998				markets imperfect, characteristics of public goods, resources are business specific.
Barker III, V.L. and Mone, M.A.	1998		organization structure, changes in vertical differentiation, changes in horizontal differentiation, changes in integrity mechanisms, changes in control systems, changes in top management compensation.		marketing changes, manufacturing changes, research and development changes, financial policy changes.
Brenneman, G.	1998	management, management turnover, crisis, time management limited time and financial resources.	company dysfunctional, no strategy in place,	crisis, time management limited time and financial resources.	
Chrisman, J.J., Bauerschmidt, A. and Hofer, C.W.	1998	entrepreneurial	business strategy organizational structure		industry structure resources
Gibson, B.N.	1998			Financial ratios.	
Harker, M.	1998				marketing
Kale, S. and Arditi, D.	1998		newness adolescence smallness		
Lee, J.	1998		lack of effective corporate governance		
McGurr, P.T. and DeVaney, S.A.	1998			Financial ratios cash flow financial ratios+ cash flow	
Robinson, K.C.	1998	business / management performance measure	business life cycle		
Stoeberl, P.A., Parker, G.E. and Joo, S-J.	1998		resistance to change liability of newness		competition

Bibeault, D.B.	1999	management turnover		mathematical z-score Gambler's ruin prediction audirots going concern opinions adverse trend signals declining margins declining market share debt increasing rapidly working capital declining	declining market share
Combs, J.G. and Ketchen, D.J.Jr.	1999		growth strategic		resources
Davis, S.E.M. and Long, D.D.	1999		lack of effective planning		
Dimitras, A.I., Slowinski, R., Susmaga, R. and Zopounidis, C.	1999			Financial ratios (270)	
FitzGerald, T.	1999	distracted management, it commerce competition,	industry is consolidating, dividend payout to high, high executive remuneration,	economic and seasonal cycles, fast growing costs, poor cash flow management, slowing down payment to vendors, needed expenditures delayed, collections worse than industry,d dividend payout to high, high executive remuneration,	economic and seasonal cycles, market is shrinking, losing market share, lower than expected sales, faster than industry growth, inventory out of control, low-margin commodity products, lost of large customers.
Henderson, A.D.	1999		age size life cycle		
Laitinen, T. and Chong, H.G.	1999	Incompetence in management management style and personality of CEO education, experience and health organisation and management team deficiencies in accounting system finance staff other deficiencies	owners role in business conflicting targets	Owners role in business conflicting targets	deficiencies in operations general deficiencies financial deficiencies production activities sales activities attitude towards customers industrial factors general economic and political issues
Laitinen, T. and Kankaanpää, M	1999			Failure prediction models - human infromation processing	

Longenecker, C.O., Simonetti, J.L. and Sharkley, T.W.	1999	communication meltdown lack of clear direction lack of efficient planning inability to change complacency towards goals			
Robinson, K.C.	1999	business / management perfromance measure	business life cycle		
Whitaker, R.B.	1999	poor management		cash flow	
Zacharakis, A.L., Meyer, G.D. and DeCastro.	1999	mixed problems already in business			external market change failure to provide for customer needs mixed problems already in business not moving fast enough
Ahn, B.S., Cho, S.S.and Kim, C.Y.	2000	integrity problem.		Financial ratio set	
Cozijnsen, A.F., Vrakking, W.F. and Van Ifzerloo, M.	2000	failure to be innovative on a continuing basis.			
Finkelstein, S. and Sanford, S.H.	2000	flawed business plan and inability to deviate.	R&D costly and time consuming flawed business plan and inability to deviate.		R&D costly and time consuming, product targets overstated,
Harker, M. and Sharma, B. *T*	2000		declining business health crisis new climate leader latitude		
Kisfalvi, V.	2000	ability to change flexibility escalatory commitment perils of success management behaviour			
Landrum, N.E.	2000	leadership change	strategy change		
Lussier, R.N. and Pfeifer, S.A.	2000	industry experience management experience planning professional advisors education staffing	age partners minority marketing	capital record keeping and financial control	product/service timing economic timing
Pandit, N.R.	2000		severity of crisis attitude of the stakeholders business's outer context business's historical strategy. exploytation		

			experimentation		
Azoulay, P. and Scott, S.	2001	efficiency, entrepreneurial talent, entrepreneurial ideas, change.			
Balgobin, R. and Pandit, N.	2001	poor management,	high cost structure.	inadequate financial control / policy,	external decrease in demand, increase in competition, increase in input costs.
Bruton, G.B. Ahlstrom, D. and Wan, J.C.C.	2001		life cycle		
Cohen, J.F.	2001	failure to plan for long term sustainability	failure to plan for long term sustainability		
Cook, G.A.S., Pandit, N.R. and Milman, D.	2001		internal external		
Cybinski, P.	2001			financial ratios export factor	
Flynn, D. and Forman, A.M.	2001		Inability of entrepreneur to adapt to the business life cycle.		
Joseph, G. and Lipka, R.	2001			Ex post facto - financial information	

Lin, Y.L. and McClean, S.	2001			Profitability(rates of return) ret. on shareholder equity., ret. on shareh. cap. ret. on long-term cap., ret. on cap. empl. ret. on net fixed assets., trad. profit marg. Profit marg. op. profit marg., pre-tax profit marg. net profit marg. , earnings marg. cash flow marg. Efficiency turn. assets/emp., turn./fixed assets turn./non-current assets., stock turn. stock ratio (days)., debts turn. debts ratio (days)., creds turn. credrs ratio (days) Gearing ratio cap. gearing %. , inc. gearing % bor. ratio., inc. gearing % (inc ass) GCF/total liab. ,Pref and loan/ equ. and res. loan cap./equity and res. liquidity rat. working cap. rat., quick asset rat. cash.crr. liab. Productivity rat. tax ratio., sales per empl. op profit per empl., cap empl/empl. stock and WIP per empl. average salary per empl. Per-share and yields-EPS	
Lussier, R.N. and Pfeifer, S.A.	2001	record keeping and financial control industry experience management experience planning professional advisors education staffing	capital product/service timing economic timing age partners minority		marketing
Mueller, G.C., McKinley, W., Mone, M.A. and Barker III, V.L.	2001	management reaction to decline			
Sharma, D.S.	2001			cash flow	

Brooks, G.	2002	management transitions: impact on values, loyalty, performance and selection.	limitations to family abilities.	financial difficulties, cash pressure	
Collard, J.M.	2002	is the owner or top management over extented? is turnover rate excessive? are communication ineffective? are goals unclear? are compensation and incentive programs yielding unsatisfactory results? is new business waning? are key relationships deteriorating?	does the company create "products in search of markets"? does the operation have a track record of failed expansion plans?	financial and management reports cover the wrong information at the wrong level?	
Cross, L.	2002	mismanagement poor accounting practices waste	failure of planned expansion		client bankruptcies lost of major customer increased competition plunge in gross profit margins
Harvey, N.	2002				inbound logistics activities, such as material handling, ware-housing and inventory control, used to receive, store, and disseminate inputs to a product. operations activities necessary to convert the inputs provided by inbound logistics into final prod¬uct form. Machining, packaging, assembly, and equipment maintenance are examples of operations activities. outbound logistics activities involved with collecting, storing, and physically distributing the final product to the customers. Examples of those activities include finished goods, warehousing, materials handling and order processing. marketing and sales activities completed to provide means through which customers can

					purchase products and to induce them to do so. To effectively market and sell products, businesss develop advertising and promotional campaigns, select appropriate distribution channels, and select, develop, and support their sales force. service activities designed to enhance or maintain a product's value. Businesss engage in a range of service-related activities, including installa¬tion, repair, training and adjustment.
Hill, J. Nanecarrow, C. and Wright, L.T.	2002	weak general mangement skills	understanding the business's environment problems encounerred in developing their business overcomming obstacles/barriers to growth and crises location or premises-related lack of finance rapid early growth	lack of finance	selling and sales function marketing mix variables sourcing and buying personal strengths and weaknesses understanding markets competition service and quality family business aspects marketing planning customers gathering and using information understanding the business's environment location or premises-related declining sales competition service price changing market environment changing customer needs
James, D,N.	2002	experiencing distress- executives misdirect efforts, cash flow management, poor decision making, undue pressure on management,	growth, expansion,		market capacity.
Keane, T.P.	2002				product failure

Markey, R.	2002	truth avoidance the role of management/leader ship	application of the wrong strategy lack of "fit" pursuit of growth for growth's sake		shift in market structure
Markman,G.D. and Gartner, W.B.	2002		hyper growth		
Mellahi, K., Jackson, P. and Sparks, L.	2002	to much reliance on previous business success change not welcomed	stuck to historical policies and procedures.		radical changes in competitive landscape international entrants changes consumeer desires limited advertising failure to take debt / credit card lack of "out-of town" stores stagnant policy and business model long term adherence to buy national policy higher pricess and loss of competitiveness cutting relation with local suppliers trade unions, suppliers and press lack of updated technology late mover to innovation stuck to historical policies and procedures.
Midanek, D.H.	2002				cash flow problems sales flat or declining customers defecting staff defecting expectancy and actual discrepancies.
Persson, H.	2004		size	debt cost disadvantage	
Steyn, W., Hamman, W.D. and Smit, E.v.d.M.	2002		high growth	Cash flow : non-cash working capital	

Stokes, D. and Blackburn, R.	2002	1.6) behaviour of the owner-manager	trust/relationship issues equal partners/ wrong partners /having partners minority shareholding employing friends/relatives unsound contracts	accounting finance problems other enogenous factors finance/taxes banks and borrwing inland revenue insufficient capital insufficient investment in equipment cash flow problems failure o control finances over reliance on overdraft too much credit to client bad credit management	exogenous factors categories marketing problem areas identified
Stokes, D. and Blackburn, R.	2002	self management lack of confidence/ overconfidence dealing with aspects working long hours being ill/ worried management of people staff problems not manageing staff lack of delegation redundencies insufficient staff general management lack of experience lack of contingency plans problem wth suppliers			marketing lack od sellectio of custormers/ low margin conflict with customers competition problem with distributors cost of advertising and promotions
Zopounidis, C. and Doumpos, M.	2002			net income/gross profit gross profit/total asets net income/total assets net income/net worth current assets/current liabilities quick assets/current liabilities (long term debt+current liabilities)total assets net worth/(net worth+long term debt) net worth/net fixed assets inventories/workin capital current liabiliites/total assets working capital/net worth	

Addis M	2003	lack of basic skills as element for competitiveness. lack of personal development. problem with occupational skills and infromation technology skills.			
Bower, J. and Gilson, S.	2003	fraud			
Dollinger, M.J.	2003	anti trust problems	a cash crunch caused by overextention a blind sppot such as the uniquesness od paradox an overdiversified portfolio causing neglect of key areas a strategic bind life cycle curve: structural uncertainties strategic uncertainties resource uncertainties customer uncertainties controlling uncertainties		

Glantz, M	2003	owners no langer takes pride in business does not know what condition the company is in and the direction it is headed fails to take trade discounts because of poor inventory turnover. frequent downturning of financial reporting sparked in an effort hire a more :liberal" accountant. changes in financial management. sharp deterioration of salaries, lower standard of living can be measures to "save" distressed business. failure to look banker in the eye, letting business deteriorate and dont return calls. lunch orders extravigant. early warning signs; management life style		changes in manner payables is paid. loans to and from managers and affiliates cash budgets not realistic. rotating bank debt unusual items on financials losses, weak gross margin, slow accounts receivables and reduced sales intercompany receivable/payables not adequitely explained. cash balances redused, overdrawn, uncollected during cycle. cash flow problems - cant cover debt service. withholding tax liabilities to pay creditors creative accounting changes in financial management comparison receivables/payables does not balance with financials of same period. partial payment to creditors erratic interum results. late financials, postpone unfavourable news unwillingness to provide budgets, projections, interum results. suppliers cut back terms or COD. concentration in receivales/payables financial ratio analysis z-score	market/ product: slow orders in comparison with previous corresponding periods. factory operating well below capacity changes in inventory, followed by excessive inventory build-up or the retention of obsolete merchandise. changes suppliers frequently increase inventory to one customer changing consentration from good client to lesser stature company loses an important supplier or customer.
Hicks-Midanek, D.	2003	management capacity			market place
Ivanova, E. and Gibcus, P.	2003	over confidenca in decision making unprepared when makin decisions ignorance exclusivity competitive	short-term focus focussed on immediate reference points of value ignorant of the alternatives easy influenced by "big" event		
Kanter, R.M.	2003	leadership			

Liebenberg, A.P. and Hoyt, R.E.	2003		integral part of enterprise risk management process high leverage driver to appoint CRO corporate governance		
Maitlis, S. and Lawrence, T.B.	2003		failure of strategy		
Miller, D., Steier, L. and Le Breton-Miller, I.	2003		family business succession, family dynamics.		
Moy, J.W. and Luk, V.W.M.	2003	stress from excessive workload difficulty in time management lack of managerial experience	inappropriate marketing strategy excessive risk lack of government support stress from excessive workload	excessive risk insufficient bank financing high interest rate lack of working capital and/or cash flow problems excessive fixed assets high operating expenses	poor control of quality of products/services inappropriate marketing strategy lack of long-term planning and view low sales volume lack of technical knowledge high labour cost tight labour market difficulty in attracting good personnel lack of working capital and/or cash flow problems strong competition lack of technology application in operations
Riana, B,. Chanda, P. and Metha, D.P.	2003		difficulties in adapting to change rigid systems lack of vision	declining profitability working capital problems increased receivables inability to plough back into business	shift in customer preference inventory buid-up frequent labour unrest regular plant breakdowns.
Scherrer, P.S.	2003	management by exception rather than flexible planning delegation without inspection control - no feedback vertical organization - no interaction among departments managers span of control employees with more than one boss chain of command broken by employess when deemed necessary formal communication not used overreliance on strategic plan, rote behaviour not creative thinking overreliance on management	overreliance on strategic plan, rote behaviour not reative thinking marketing wrong product/ wrong markets aging production techniques inadequate research and developement inadequate pro inappropriate channels of distribution nonresponsive fifancial information systems inadequate understanding of customers needs		marketing wrong product/ wrong markets aging production techniques inadequate research and developement inadequate pro inappropriate channels of distribution nonresponsive fifancial information systems loss of competitive advantage displacement by competitors changing technology consumer, regularory, and economic changes inadequate understanding of customers need

		objectives senior management abuse outside activities and co perks			
Timmons, J.A. and Spinelle, S.	2003		excessive growth		
Vining, A.R.	2003				business inefficiencies
Anon (j)	2004		importance of diversification and willingness to change		
Anon (d)	2004	failure to integrate different concepts in the same management infromation system (mismanagement)	1) failure to engage a competent, experienced turnaround manager to steer the appropriate course for the return to profitability 2) failure to quickly arrest cash hemorrhaging 3) failure to engage merchandisers to refocus marketing strategy 4) insufficient focus on core business strength 5) closing to few stores and taking to long to close them 7) disastrous acquisitions. rapid expansion	9) insuficient equity base - too m uck leverage	
Anon (e)	2004				expensive labour high rejection rate throughout the manufacturing process low emoployee morale, absenteeism and poor job quality

Anon (h)	2004	lack of action on negative variances from budgets		significant differences between actual and projected results poor return on investment	reductions in working capital and cash flow increases in fixed and variable expenses dropping gross margins
Anon.(i)	2004	role of directors in management of companies. commercial vs. actual insolvency. reckless trading.			
Anon.(k)	2004	management defects such as , skills, knowledge and talent, improper cash flow management, inadequate budget control,	insufficient response to change, outdated products, low R+D budget, ageing of manufacturing equipment, antiquidated methods of selling, overtrading, high level of non-equity finance, launching of large project outside available resources,	reasons for business distress: debtor became distressed, poor credit analysis, poor collection follow-up, under-capitalized - placing over reliance on creditors, overtrading, high level of non-equity finance, launching of large project outside available resources,	losses due to product changes; style, knowledge and talent,
Aziz, M.A. and Dar, H.A.	2004			Focus on financial distress. financial ratios, cash flow management financial ratios unexplained.	
Brooks, M.	2004	management role			
Campos, R. , Ruiz, F.J., Agell, N. and Angulo, C.	2004				Early warning signs identification through the use of artificial neural networks.
Charitou, A., Neophytou, E. and Charalambous, C.	2004			Financial leverage: REAT SEQAT SEQTL TLAT SEQDT Operating cash flow CFFOTL CFFOLCT Liquidity CTACT ACTLCT WCAT LCTAT QALCT	

Charitou, A., Neophytou, E. and Charalambous, C.	2004			EBITTL IBPPENT EBITLCT ROA IBSALE IBTL WCFOAT WCFOSALE EBITPPEN CHIB Activity NWSALE Market MKVALDT MKVALSAQ	
Conger, J.A. and Nadler, D.A.	2004	management			
Craighead, C.W., Karwan, K.R. and Miller, J.L.	2004				service failure
Daniel, F., Lohrke, F.T., Fornaciari, C.J. and Turner Jr, R.A.	2004		slack resources rather than slack efficiency		resource slack availability recoverability potential
Dietrich, J. Arcelus, F.J. and Srinivasan, G.	2004			focus on financial ratios WC/TA EBIT/TA EBT/CL S/TA RE/TA EBT/Eq CF/TL TL/TA CL/TA WC/TL logTgA log EBIT/I Eq/TL	
Falkenberg, A.D. and Glamheden, H.A.	2004	management tenure.			
Gilmore, A., Carson, D. and O'Donnell, A.	2004	company size, entering into new market / area, management of risk, through networking, using managerial competencies. entrusting staff.	company size, entering into new market / area,	cash flow,	
Gudmundsson, S.V.	2004	productivity			through networking, using managerial competencies.

Huson, M.R.,Malatesta , P.H. And Parrino, R.	2004	management			
Jooste, L.	2004			cash flow	
Kemp, S.	2004			cash flow rapid sales expantion	
Kow, G.	2004		excessive growth faster, bigger better.		
Lin, L. and Piesse, J.	2004	management inefficiency	capital structure	insolvency	dverse economic effects - income volatility
Nutt, P.C.	2004	rush to judgement failure - prone practices poor allocation of resources limited search trap failed mojor decisions			
Orme, D.	2004	ineffective mangement style lack of operating controls operating without buiness plan outdated business model	over diversification explosive growth family interest v/s business requirement	weak financial function	market lag precarious customer base
Orme, D.	2004	ineffective mangement style family interest v/s business requirement operating without buiness plan	over diversification explosive growth outdated business model	weak financial function poor lender relationship	lack of operating controls market lag precarious customer base
Persson, H.	2004				
Pratten, F.D.	2004		growing competition	increased cost due to labor legislation increased rents	reduction in sales growing competition
Von Oetinger, B.	2004	lack of innovation lack of past experience			
Walshe, K., Harvey, G., Hyde, P. and Pandit, N.	2004		symptoms, causes chronic and acute characteristics of failure types or categories of failure internal and external characteristics of failure phases decline and crisis triggers for change		
Anon (d)	2005	fiduciary duties, skill and care, liabilities to shareholders, creditors, third parties government and public.			
Anon. (a)	2005	directors responsibilities			

Anon. (b)	2005	ineffective management style	overdiversification precarious customer base family v/s business matters1 operating without business plan	weak financial function poor lender relationship explosive growth	lack of operating controls market lag explosive growth
Back, P.	2005	character of management; reputation, fair dealings history, own financial difficulties, reputation of dishonesty, competence, insufficiency.	number of changes in directors, age of business, group membership, size of business, efficiency,	leverage. non- financial var number of payment delays, payment behaviour variables, existence of loans secured on businesss assets and reporting lags,	
Barker III, V.L.	2005	dysfunctional organizational cultures - financial management. media accounts, verbal information.	multiple sources internal; weak strategy, dysfunctional organizational cultures - financial management.	accounting reports, internal memos, consultants reports,	multiple sources, external change in technology, recession, competitors.
Bates, T.	2005	focus on skills set of owners as warning sign.			
Baunard, P. and Starbuck, W.H.	2005	essential for survival and success in face of changing environment. neglible long-run effects on population of businesss, essential for survival but creates no competitive advantages for survivors, cognition does not afford a dependable basis for learning.	attempted growth into new domain, transferring an old model to a new situations, product launch, new activity reinforced by core believes, over estimation of demand, resurgence of a core believe, and escalation of commitment in losing business.		
Beaver, G. and Jennings, P.	2005	lack of management skills, lack of experience, neglect, fraud, poor record keeping, reckless money management, inability to cope with growth.	poor location, lack of formal planning, inability to cope with growth.	lack of capital budget, poor record keeping, reckless money management,	inadequate accounting systems, lack of marketing skills, inadequate provision for contingencies, excessive inventory incompetence, disaster, insufficient marketing talent, indifferent employees ,
Bollen, L.H.H., Mertens, G.M.H., Meuwissen, R.H.G., Van Raak, J.J.F. and Schelleman, C.	2005	managerial control issues and fraud	financial		external

Burbank, R.K.	2005	management shortcomings,	ineffective board of directors / managers,	excess leverage,	technology changes, loss of market share, industry weakness, labour problems economic conditions.
Cannon, M.D. and Edmondson, A.C.	2005		failure to head the importance of smaller failure within business		
Dehney, R.B.D. and Miller, C.	2005		ongoing litigation and law suites		
Dietrich, J. Arcelus, F.J. and Srinivasan, G.	2005			focus on financial ratios WC/TA EBIT/TA EBT/CL S/TA RE/TA EBT/Eq CF/TL TL/TA CL/TA WC/TL logTgA log EBIT/I Eq/TL	
Garvin, D.A. and Roberto, M.	2005	dysfunctional routines, management.			
Hass, W.J. and Pryor IV, S.G.	2005	autocratic management politically motivated decision making managerial warning signs: management promises unrealistic improvement in results management throws money after the problem management raises prices to improve profits sales decline and marketing budgets are cut bad business practices like creative accounting and quarter-end loading are used in desperation earnings disappoint and management's credibilty is lost			quality problems declining growth rates low employee morale high employee morale declining productivity growth of new competition customer loss declines in gross margin and market share

Jas, P. and Skelcher, C.	2005	Internal sources of decline; technical poor management cognisance leadership capability	Internal sources of decline; poor management cognisance leadership capability external sources of decline; reallocation of resources political and management shifts		internal sources of decline; technical poor management cognisance leadership capability external sources of decline; reallocation of resources political and management shifts
Kam, J.	2005	management misperception of its own competence level dealing with demand and competition having distracted attention acting impulsively little consideration for risk being narcissistic and myopic decision fostered by pride and over confidence + arrogance breeding future from previous success inefficiency to respond to environmental change	behavioural factors strategic persistency escalation of commitment threst-rigidity effect organizational inertja		economic condition unexpected jolts brand switching consumer taste changes competition new entrants organization destiny technological uncertainty caused by product or process innovation capacity downsizing change/ challenges of market business age, size, degree of specialization decline in market
Knott, A.M. and Posen, H.E.	2005	learning's out of failure			
Koopman, S.J., Lucas, A. and Klaasen, P.	2005				cyclical movement in default rates
McRann, B.	2005				slow growth seasonable variation product life cycle short-term slowdown
Mellahi, K.	2005	failure of board to detect warning signs management			
Miller, D. and Le Breton-Miller, I.	2005	long executive apprenticeships and tenures. courage, renewal, cohersivetop team. connection, benevolent partnering, close to client, sustained contacts, good corporate citizenship,	substantive mission vs. financial results, thematic, competency- based strategy, focused, long-term investment, patient shareholders,		community, clarion values, assiduous selection and socialization, welfare state for employees, informality, initiative and teamwork.

Pompe, P.M. and Bilderbeek, J.	2005			Profitability gross operating results/total assets net operating results/total assets gross results/total assets profit before taxes/total assets profit after taxes/total assets. cash flow/total assets profit after taxes/equity cash flow/equity gross operating results/working assets net operating results/ working assets.	
Pompe, P.M. and Bilderbeek, J.	2005			gross operating results/turnover net operating results /turnover gross results/turnover net results/turnover profit before taxes /turnover profit after taxes/turnover cash flow/turnover., gross operating results /added value net operating results /added value gross results/added value net results/added value profit before taxes /added value profit after taxes /added value cash flow/added value equity/turnover turnover/workingasset turnover/fixed working capital turnover/current working capital turnover total assets added value/total assets added value /turnover added value/fixed assets financial charges /added value income taxes/added value personnel charges /added value added value/number of persons employd fixed working assets/ number of persons employedpublication	

Pompe, P.M. and Bilderbeek, J.	2005			working capital/turnover working capital/total assets current assets/turnover current assets/total assets current assets/short-term debt quick assets/turnover quick assets/total assets quick assets/short-term debt quick assets/amounts payable within one year (investments+cash)/turnover (investment+cash)/total assets (investments+cash)/amounts payable within 1 year (investments+cash-finacial debts)/current assets cash/amount payable within 1 year cash/current assets cost price of the production/stocks stocks/turnover stocks/total assets trade debtors/turnover trade debtors/total assets trade debts/goods and services purchased trade debts/turnover trade debts/total assets short-termdebt/turnover	
Pompe, P.M. and Bilderbeek, J.	2005			equity/total assets equity/permanent capital short-term debt/total assets long-term debt/total assets (reserves+ accumulated profit or loss)/total assets profit after taxes/total debt cash flow/total debt cashflow/long term debt net results/financial charges whether equity is positive or negative	

Probst, G. and Raisch, S.	2005	autocratic leadership excessive success culture common pattern tentative change weak organizational leadership lacking success culture.	growth uncontroled change		premature ageing stagnant growth
Radipere, S. and Van Scheers, L.	2005	management inefficiency		financial	marketing
Sampath, R. and Kambil, A.	2005		growth		
Sargeant, J.R.	2005	no interum management financials no annual financial statements no budget no cash flow statements no work structure lack of control no clear managerial responsibilities no leader - lack of role clarity low managerial skills		no interum management financials no annual financial statements no budget no cash flow statements no work structure lack of control no clear managerial responsibilities no leader - lack of role clarity low managerial skills	
Anon (b)	2006	always fire-fighting delayed decisions - let other decide poor staff retention tense work atmosphere spend time away not addressing problem present - focus on "rosy" future		large cash flow fluctuations large cash flow surprises no capital reserves	sales unpredictable and irregular no replace orders few new customers no word of mouth customers sales are falling
Carmichael, T. and Stacey, A.	2006	managerial success variables; accountability initiative boundaryless thinking integrity commitment conceptual thinking communication knowledge expertise customer focus quality focus empowerment shared ownership global worldview speed influence and team building			
Cressy, R.	2006		growth risk propensity for risk		

Drew, S.A., Kelley, P.C. and Kendrick, T.	2006	senior levels misjudgement of risk mismanagement of risk unethical behaviour excessive internal rivalry intolerance of failure propensity for risk taking secretiveness persecution of people who speak up			
Elenkov, D. and Fileva, T.	2006	bad luck			
Farris, B., Lee, H., Maitrelean, J., Schouer, J. and Seyffret, N.	2006		lack of clear strategic plan, optimistic acquisition. lack of promotional strategy,		industry changes, uncompetitive pricing, poor market share, and existing underperforming staff.
Joseph, G. and Lipka, R.	2006			Ex post facto - financial infromation	
Kampschroeder, K.F., Ludwig, N., Murray, M.A. and Padmanabhan.	2006		entrepreneurial failure concerns		
Lewin, B.P.	2006	CEO capabilities weak monitoring - risk reduction	sustainable growth rate sales growth rate	cash flow sustainable growth rate	
Pearce II, J.A. and Michael, S.C.	2006				recession
Steyn Bruwer, B.W. and Hamman, W.D.	2006			cash growth and cash	
Taite, D.	2006	operational issues corporate governance		turnover margin and profit financing and cash	
Tsakonas, A., Dounias, G., Doumpos, M. and Zopounidis, C.	2006			net income/gross profit gross profit/total assets net ncome/totalassets net income/net worth current assets/ current liabilities quick/assets/current liabilities [long term debt+ current liabilities]/total assets net worth/[net worth +long term debt] net worth/net fixed assets inventories/working capital current liabilities/total assets working capital/net w	

Agarwal, V. and Taffler, R.	2007			Draw comparison between Altman, Taffler- and market based models. Use traditional Z-score ratios	
Amaral, A.M. and Baptista, R.	2007	novice vs. experienced. focus on re-entry of entrepreneurs			
Anon (d)	2007	absence of management skills emphasis on family rather than management delays in management information systems		inappropraite financing structures mismatch assets and liabilities deteriorating margins masked by increased volumes ineffective tax structure uncompetitive cost base poor information systems uncontrolled growth in lending	shrinking markets increased warranty claims staff turover
Berger, H.	2007	focus on bureaucratic and hierarchical environment - control over critical decision making. Values. Project failure or success.			
Boshoff, C.	2007				poor service delivery
Byers, M.	2007	regular trading losses not producing accounting and trading information		don't pay employees in time exhausted all immediate sources of cash exceeding credit terms with suppliers regular trading losses	
Calandro(Jr), J.	2007			Z-score	
Gonzalez, L. and James, C.	2007			Financial ratio analysis	
Han, C., Huml, A., Kagalkar, A., Saito, L. and Sundjaja, K.	2007	management	capital expenditure - expantion	cash-flow working capital negative capital expenditure - expantion	new competirion existing competition
Jooste, L.	2007			Focus on the predictive role of cash- flow ratios cash flow to sales cash flow to assets reinvestment cask flow to total debt critical needs coverage cash interest coverage dividend coverage cash flow to income	

Lamers, R.	2007			Cash flow problems not paying statutory creditors not paying staff business growth disruption of business working capital cycle	
Longenecker, C.O., Mitchell, M.J. and Fink, L.	2007	managerial failure			
McCrea, E. and Betts, S.	2007		strategy		
Nag, R., Hambrick, D.C. and Chen, M-J.	2007	management	strategy		
Okpara, J.O. and Wynn, P.	2007	personnel management issues corruption	operations planning market research financial analysis infrastructure issues	accounting finance	operating problems marketing inventory control production operations technology low demand
Strotmann, H.	2007		start-up size type of establishment industry growth industry concentration industry entry rate technological regime industry economies of scale industry heterogenety		
Strotmann, H.	2007		start-up size type of establishment industry growth industry concentration industry entry rate technological regime industry economies of scale industry heterogenety		

Van Caillie, D.. and Crutzen, N.	2007			heavy amount of charges financial indicators of profitability poor/decrease in the market share insufficient cash flow poor/decrease in current ratio weakening/deterioration of resources base poor/decrease in investment rate increase in level of external debt solvency decrease increase in financial charges critical warning signals - solvency and liquidity extremely low and mistrust of partners bankruptcy	insufficient sales
Van Scheers, L. and Radipere, S.	2007	managers not managing			
Altman, E.I.	2008			Z-score factors (financial ratios) Explanation of each element and the final ratio will lead to identification: working capital (WC), total assets (TA), retained earnings (RE), total debt (TD), market value of equity (MVE) sales (S).	
Anon	2008				Broken Promisses unreturned telephone calls invcrease in reference requests changes in payment patterns changes in buying patterns cash flow excuses
Barker, A., Cassidy, L., Goodman, J. Siegel, J. and Ulin, E.	2008			gross margins erode due to pricing pressures, operating margins fall, sales stagnated are fixed operating costs.	
Chenhall, R.H.	2008	management			
Li, H. and Sun, J.	2008			focus on financial distress prediction using case-based reasoning (CBR)	

Martin, R.D. and Kimberly, J.R.	2008	management capability weak cost control and data inefficiencies	wrong/costly strategy acquisitions change in legislation	increased cost	market difficult to operate excess capacity
Martin, R.D. and Kimberly, J.R.	2008	management capability	wrong/costly strategy acquisitions	increased cost weak cost control and data inefficiencies	change in legislation market difficult to operate excess capacity
Ooghe, H. and De Prijcker, S.	2008	four failure processes identified. lack of management and industry experience Inappropriate management mistrust of financiers	weak business plan lack of strategic advantage heavy capital expenditures	heavy capital expenditures insufficient cash flow/profitability liquidity problems increase in Liabilities = weaker solvency	low sales underestimated expenses
Ooghe, H. and De Prijcker, S.	2008	ack of management and industry experience Inappropriate management	weak business plan lack of strategic advantage heavy capital expenditures	heavy capital expenditures underestimated expenses insufficient cash flow/profitability liquidity problems increase in Liabilities = weaker solvency	Low sales
Pindado, J. Rodrigues, L . and De la Torre, C.	2008			Financial ratios EBITDA/FE (EBIT/RTA) (FE/RTA) (RE/RTA)	
Pretorius, M.	2008	leadership management individual skills behaviour cognition and learning	internal causes of failure external causes of decline administrative causes of decline strategic causes of decline increased centralization lack of long term planning curtailed innovation		departure key staff loss of resource slack fragmented pluralism non-prioritised cutbacks
Chandre, D.K., Ravi, V. and Bose, I.	2009			financial statements	

Chen, H. Huang, S.Y. and Lin, C.	2009			STLR Current assets/current liab. (CA/CL) (Cash+ cash equivalents)/ current liab. CFR Cash flow/ tot debts (CF/TD) Retained earnings/ tot assets (RE/TA) (Current assets - current liab's.) / tot assets ((CA-LA)/TA) Total cash flow/ tot assets (CF/TA) CSLTSR Total debt/ tot assets (TD/TA) Total debts / tot equity(TD/TE) Earnings before int.and taxes / (earnings before int. and taxes - int. expense (EBIT / (EBIT-IE) Operating income / int. expense (OI/IE) ROIR Income before taxes / average tot assets (IBT / AOA) Earnings before int. and taxes / tot assets (EBIT / TA)	
Chen, H. Huang, S.Y. and Lin, C.	2009			Net sales / tot assets (NS / TA) OPR (Sales - cost of sales) /sales ((S-CS)/S) Linguistic: Short-term liq ratio (STLR) Cash flow ratio (CFR) Capital structure and long-term solvency ratio (CSLTSR) Return on investment ratio (ROIR) Asset utilisation ratio (AUR) Operating performance ratio (OPR) Liquidity (LIQ) Retained earnings (RE) Bankruptcy.E278	

Chen, H. Huang, S.Y. and Lin, C.	2009			STLR Current assets/current liab. (CA/CL) (Cash+ cash equivalents)/ current liab. CFR Cash flow/ tot debts (CF/TD) Retained earnings/ tot assets (RE/TA) (Current assets - current liab's.) / tot assets ((CA-LA)/TA) Total cash flow/ tot assets (CF/TA) CSLTSR Total debt/ tot assets (TD/TA) Total debts / tot equity(TD/TE) Earnings before int.and taxes / (earnings before int. and taxes - int. expense (EBIT / (EBIT-IE) Operating income / int. expense (OI/IE) ROIR Income before taxes / average tot assets (IBT / AOA) Earnings before int. and taxes / tot assets (EBIT / TA)	
Chen, H. Huang, S.Y. and Lin, C.	2009			5) AUR - Net sales / tot assets (NS / TA) 6) OPR 6.1) (Sales - cost of sales) /sales ((S-CS)/S) Linguistic: - Short-term liq ratio (STLR) - Cash flow ratio (CFR) - Capital structure and long-term solvency ratio (CSLTSR) - Return on investment ratio (ROIR) - Asset utilisation ratio (AUR) - Operating perfromance ratio (OPR) - Liquidity (LIQ) - Retained earnings (RE) - Bankruptcy.	

Chen, W. and Du, Y.	2009	management efficiency ability,		earning ability, financial structure ability, debt repayment ability,	
Chi, L.	2009	managerial incompetence, managerial deficiencies,		inadequate cash to cover liabilities.	
Davis, P.	2009				
Glantz, M.	2009	management fails to take trade discounts because of poor inventory turnover frequent " down tiering' of financial reporting sparked in an effort to bring on a more "liberal" accountant changes in financial management does not allow cushion for error financials are submitted late in an attempt by management or their accountants to postpone unfavorable news	frequent " down tiering' of financial reporting sparked in an effort to bring on a more "liberal" accountant sharp reduction in officers salaries erratic interim results signaling a departure from ormal and historical patterns does not allow cushion for error financials are submitted late in an attempt by management or their accountants to postpone unfavorable news	cash balances reduce substantially or are overdrawn and uncollected during normal lquid periods management fails to take trade discounts because of poor inventory turnover low probabiloities operating cash flows cover debt service withholding tax liability builds as taxes are used to pay other debt frequent " down tiering' of financial reporting sparked in an effort to bring on a more "liberal" accountant changes in financial management total in receivables and payables aging schedules do not agree with amounts shown on the balance sheet of the same date. sharp reduction in officers salaries erratic interim results signaling a departure from normal and historical patterns does not allow cushion for error lender taking possession of collateral changes in inventory, followed by excessive inventory buildup or the retention of onsolete merchandise change of suppliers frequently, or transient buying results in higher raw material costs. financials are submitted late in an attempt by management or their	change of suppliers frequently, or transient buying results in higher raw material costs.

				accountants to postpone unfavorable news	
Glantz, M.	2009	unwillingness to provide budgets, projections or intrim information letting the condition of the business deteriorate management 'expensive' lunches		cash flow signals - gross operating cash flow is below new income and net operating cask flow well below gross operating cash flow lender finances highly speculative inventory ahereby the borrower is trying for a "home run" such as failure to look the bankers in the eye taking longer to return call or do not return at all. concentration of payables and receivables - unsatisfactory explanations	increased inventory to one customer or perilous reliance on one account changing from "good" customer to one of lessor stature suppliers cut back terms or request COD loss of important client or supplier

Glantz, M.	2009			cash flow problems merchandise shipped out at end of month or year to window dress the financials unearned income - shifting sales to future periods via reserves, income smoothing gimmicks, creating gains and losses by selling, retiring debt income contributing less and less to overall financing dividens large in proportion to net income depreciation is greater than capital expenditures -assets running below optimal levels evidenced by weakening gross profit margin hiding losses inside discounted operations selling assets after pooling moving current expenses to later periods by improperly capitalizing costs amortizing costs too slowly and failing to write-off worthless assets. large overdue receivables overly dependent on one or two customers related-party receivables slow receivables turnaover (annualize frequently)	
Glantz, M.	2009			right of return exists unjustified LIFO to FIFO changes insufficient insurance inclusion of inflation profits in inventory large, unexplained increase in inventory gross profit trends bad but no markdowns - inclusion of improper costs in inventory, capitalized instead of flow-through deferred taxes are running off	

Glantz, M.	2009			fixed asset turnover (sales/NFA) indicates sharp increase and tied to: backlogs significantly increased GPM significantly below historical and industry WIP inventory embedded in very weak inventory turnover. outdated equipement high maintenance and repair expense declining output level inadequite depreciation charge lengthening depreciation period large write-off of ssets distirtions re: currency translations	
Halpern, P., Kieschnick, R. and Rotenberg, W.	2009		discipline imposed by debt, larger, less risky businesss -public debt	leverage buyouts, leveraged recapitalization, high leverage transactions.	inappropriate debt loads,
Lin, L.	2009			Financial ratios	
Muller, G.H., Steyn-Bruwer, B.W. and Hamman, W.D.	2009		size of company structure	financial ratios cash flow profit ratios	
Oosthuizen, H.	2009		strategic		
Orpurt, S.F and Zang, Y.	2009			cash flow	
Zwaig, M. and Pickett, M	2009	managerial inadequite management system mediocre management skill certain personality traits management lacks depth relies on one individual for decision making unbalanced management team lack of management depth weak financial and organizational skills poor understanding of finance habits and personal traits personal problems frivolous spending		Financial signs decline in sales lower profits margins sustained losses increased highly leveraged balance sheet reduced cash flow relationship with bank change in borrowing request for security breach of covenants	Operatinal signs changes in senior management high employee turnaver resignation of members unsuccessful expantion insufficient cash flow lack of clear direction deterioration of internal controls decline in customer service quality compromise one-time events largebad debt changes in market place change in supply payments inability to capatilze on discounts underpricing contracts

Zwaig, M. and Pickett, M	2009				payment patterns purchasing patterns industry trends new developments in customer base law suitspersonal problems rumour mill third party endorsement customer and industry knowledge

APPENDIX B: BANKING SIGNS

Banking Warning Signs (own compilation)

AUTHOR	DATE	BANKING EARLY WARNING SIGNS
Pousson, J.	1991	• broken promises • surprises • hardcore overdraft • facilities fully utilised and frequently exceeded • increase in status enquiries • large cash withdrawals • increase in short term requests • unable to meet tax cheque/ wages • regular stop payments • no management accounts • borrowings over limit • changing conduct of account • hard core overdraft • build up / late payment of creditors
Brenneman, G.	1998	• poor service • poor product,
Bibeault, D.B.	1999	• slowness in submitting financial exhibits by the borrower. • declining deposit balances, overdrafts and /or returned cheques • failure to perform on other obligations, including personal debt of principals • inventories become swollen • loan repayments become delinquent with the past due periods increasing • slowness in bank's ability to arrange plant visitations or meetings with principals • business becomes target of legal process or actions • trade payables and/or accruals begin to build • adverse information from competitors and customers of the business concern

FitzGerald, T.	1999	• concerned bankers • concern on performance • poor lent profile • low-margin commodity products • lost of large customers
Glantz, M (continue)	2003	• unsustainable growth • frequent visits to place of business reveals deteriorating general appearance, building rolling stock and equipment. • allow advances on overdraft for other purposes - to repay own debt. (allow debit orders to go through) • finance highly speculative inventory
Glantz, M.	2003	• rotating bank debt • poor examination of cash flow • changes in financial management • no cushion build in to loan for error.
Hicks-Midanek, D.	2003	• banking signs • bank covenant failure • liquidity conditions • financing options
Moy, J.W. and Luk, V.W.M.	2003	• insufficient bank financing • high interest rate • lack of working capital and/or cash flow problems
Orme, D.	2004	• poor lender relationship
Back, P.	2005	• prior payment behaviour; • prior payment delays • payment disturbances • creditor lose confidence • higher interest rate change • debts not paid at time of maturity • three or more payment delays • banking relationship,
Lewin, B.P.	2006	• breach of debt covenants
Byers, M.	2007	• banking sign: frequent excesses on facility limits

Gonzalez, L. and James, C.	2007	• banking relationship
Ooghe, H. and De Prijcker, S.	2008	• mistrust of financiers
Davis, P.	2009	• the way in which financial institutions identify , assess and manage risks continues to fall under intense scrutiny • risk measurement • 3) stress testing • evident that risk processes were sensible -sophisticated, but sometimes poorly executed.
Glantz, M.	2009	• at the end of the cycle, creditors are not completely paid out. - this gives bankers the false sense of security but company cannot borrow from trade for next cycle • lender taking possession of collateral • such as failure to look the bankers in the eye
Halpern, P., Kieschnick, R. and Rotenberg, W.	2009	• overdraft advances funds other purposes, pay own bank debt • changes in covenants,

APPENDIX C: PHASES IN TURNAROUND STRATEGIC PROCESS

AUTHOR	**DATE**	**TURNAROUND SETTING UP PHASE**		**TURNAROUND EXECUTION**		
		INVESTIGATION PHASE	**PLANNING PHASE**	**STRATEGIC RESPONSE**	**FINANCIAL RESPONSE**	**OPERATING RESPONSE**
New (Jr), R.V.	1974	Turnaround decision				
Carrington, J.H. and Aurelio, J.M.	1976		Careful planning. 1) create attitude of mutual trust, 2) develop a careful financial plan for survival, 3) disclose to customers and creditors, 4) determine if business can generate enough cash to remain solvent.		Retention of business, 1) inject additional capital 2) borrow money, 3) cut expenses (overheads), 4) employ combination of aforesaid, 5) withhold statutory creditors as short term measure.	
Hedley, B.	1976		1) Productivity improvement due to technologi¬cal change and/or 'learning' effects leading to adoption of new production methods 2) Economies of scale and of specialization 3) Displacement of less efficient factors of pro-duction, especially investment for cost reduc¬tion and capital-for-labour substitution 4) Modifications and redesign of product for lower costs.			
Hamermesh, R.G.	1977			Staffing: 1) Intermediate staff 2) Intermediate managers 3) Personnel changes	Focused reorganization	
Higgins, R.C.	1977			Sustainable growth Long term planning on sustainable growth.		

Hofer, C.W.	1980	The nature of turnaround situations 1) assessing current operating health 1.1) financial condition 1.2) market position 1.3) technical stance 1.4) production capabilities 2) assessing current strategic health 2.1) product/market matrix 2.2) technological and production capabilities 2.3) financial capabilities		1) vertical integration 2) diversificatures 3) top management changes		1) major plant expenditures 2) functional are emphasis 3) improved efficiency ratios.
Christensen, H.K., Cooper, A.C. and DeKluyver.	1982			1) Repositioning 2) Harvesting 3) Disinvestment 4) Liquidation		
Gelb, B.D.	1982			Retain / divest		
Anderton, D.L., Conaty, J. and Miller, G.A.	1983			Turnaround: structural constraints.		Industry ariables: 1) frequency of product changes, 2) technology change, 3) development time for new products 4) relative compensation average. Product competition variables: 1) customization, 2) relative product breadth, 3) product quality average, 4) relative price 5) market share. R&D variables: 1) new products 2) product R&D/ revenue average. Production/invest ment average; 1) total inventory/ revenue average, 2) P&E newness average 3) investment /revenue average.

Anderton, D.L., Conaty, J. and Miller, G.A.						Efficiency variables: 1) capacity usage average, 2) employee productivity average 3) value added /revenue average. Vertical integration variables: 1)vertical integration backward, 2) vertical integration forward. Marketing variables: 1)Sales force/ revenue average, 2) media advertising/revenue average, 3) relative sales force expenses 4) relative media advertising expenses.
Dolan, P.F.	1983		Turnaround action: 1) select an alternative or set of alternatives 2) project financial impact of cash, include balance sheet, profit and loss 3) use ZETA analysis on projected data - project score 4) evaluate financial impact of each alternative on the company's ability to survive	Turnaround strategy 1) accelerating cash flow 2) consolidating product lines 3) closing facilities 4) reorganizing 5) restructuring the capitalization 6) Liquidating assets, 7) reducing unproductive assets, 8) speed up turnaround time on productive assets 9) divesting subsidiaries 10) merging with another business		
Hambrick, D.C. and Schecter, S.M.	1983			1) identify low performers 2)asset and cost surgery 3) selective product / market pricing		4) piecemeal productivity

Janzen, L.T.	1983		Planning: 1) formulate long-range objectives 2) formulate short-time strategy 3) concentrate on modern products 4) stop production 5) establish market orientation 6) concentrate on fast profit increase			
Perry, L.T.	1984					Turnaround strategy: people layoffs
Bellisario, M.	1985		Set targets for turnaround	1) New industrial relations strategy 2) Renewal of processes 3) Communication 4) Regular transformation 5) Information transparency 6) Information processing 7) Fine tune corporate structure		Renew: 1) products 2) production processes 3) structures
Melin, L.	1985			Strategic measures: New Owners		1) Increased concentration on R+D 2) Cutting down of assortment diversification 3) Market expansion 4) Market concentration 5) Capacity increase 6) Capacity decrease 7) Export of knowhow 8) Fusion/acquisition of competitor.
Müller, R.	1985			1)Effective management out of own ranks 2)Strict, relaxed leadership 3)Esprit de corps 4) Effective conflict management 5) Back-up financial institutions 6) Realistic sustainable restructuring concept		

Seabright, J.W.	1985			1) New organization 2)Training and development 3) Merchandise selection and control 4) Pricing policy 5) Quality control 6) Customer service 7) Financial resources		
Wernerfelt, B.	1985					Turnaround: brand loyalty
Dickson, P.R. and Giglierano, J.J.	1986	Assessment of turnaround strategy against cost		Turnaround strategic planning and cost.		
Jemison, DB. and Sitkin, S.B.	1986		Turnaround plan: 1) acquisition 2) strategic fit			
O'Neill, H.M.	1986 a	1) analysis of the cause of turnaround 2) analysis of key factors	1) decide on management changes 2) design sub-strategis	Management process: 1) turnaround effort usually preceded by management change 1.2) redefinition of businesss business 1.3) policy changes 1.4) growth strategies 1.5) attention to re-structuring 1.6) planning 2) key factors in turnaround 2.1) competitive position 2.2) product life cycle/ general market conditions 2.3) industry tyoe 2.4) change in competitixe patterns 2.5) cause of decline 2.6) new strategic era		
O'Neill, H.M.	1986 b	Turnaround decision				
Schwartz, K.B. and Menon, K.	1986			Turnaround strategy -CEO replacement		
Lorange,P. and Nelson, R.T.	1987	Unfreezing; establishing the likelihood of decline - top-down, bottom-up dialogue				
Modiano, P.	1987					1) Renewal of manufacturing process 2) Product redesigns

Siomkos, G. and Shrivastava, P.	1987		Decision making process			
Whitney, J.O.	1987	Intelligence from the source	Plan for cash		Change non-cash working capital into cash	
Chrisman, J.J., Hofer, C.W. and Boulton, W.R.	1988		Turnaround strategy definition and plan			
Harker, M.	1988					Turnaround strategy: marketing
Quinn, J.B., Mutzberg, H. and James, R.M.	1988	1) Is the business worth saving? 2) Sustainable or disinvest or liquidate 3) current operating health 4) current strategic health	Selection of turnaround strategy	Strategic turnaround only if operstional base is potentially strong		1) Operational turnarounds 2) revenue-increasing strategies 3) cost cutting strategies 4) asset reduction strategies 5) combination strategies
Dutz, M. A.	1989		Mergers and acquisitions			
Eisenhardt, K.M.	1989 a			Turnaround practitioner with regards agency theory.		
Eisenhardt, K.M.	1989 b			Turnaround: problem solving in cognition.		

Gilmore, T.N. and Kazanjian, R.K.	1989		Turnaround plan: Decision types. 1) Planning and decisions and policies 2) strategic-, 3) business-, 4) product-planning, 5) booking forecast.	1) Engineering and product development decisions and policies, 2) Product design and development, 3) value engineering, 4) CAD/CAM operations	Finance and administration decisions and policies, 1) corporate revenue forecast, 2) managerial reporting, 3) facilities planning.	1) Manufacturing decisions and policies, 1.1) manufacturing product and meeting ship schedule, 1.2) inventory ownership and management, 1.3) costs of goods sold internally, 2) Quality assurance decisions and policies, 2.1) product reliability program, 2.2) component qualification, 2.3) workmanship training program, 2.4) inspection. 3) Human resources decisions and policies, 3.1) compensation, 3.2) hiring. 4) Marketing and sales decisions and policies, 4.1) setting and meeting sales targets, 4.2) pricing, 4.3) marketing research and dissemination, 4.4) sales support procedures.
Zimmerman, F.M.	1989		1.Distinguishing Features 2.Reliability and Performance 3.Product Quality 4.Market Continuity	Appropriate turnarounds leadership 1. Managerial Stability 2.Fair Play	Modest Overhead	1.Production Efficiency 2.Inventory Efficiency 3.Design for Manufacturability 4.Focus on Operations 5.Experience in the Industry 6.Technical Experience 7.Knowledge Exploration 8.Incremental Changes
Boyle, R.D. and Desai, H.B.	1990	Analysis of causes for failure				

Duchesneau, D.A. and Gartner, W.B.	1990		Turnaround plan: Extensive use of characteristics and actions of: 1) lead entrepreneurs 2) start-up behaviours 3) behaviours and strategy			
Grinyer, P.H., Mayes, D. and McKierman, P.	1990			Change in management		Production costs Marketing
Okuzumi, H.	1990		Turnaround: strategic planning			
Stopford, J.M. and Baden-Fuller, C.	1990			Turnaround: rejuvenation vs turnaround		
Boyle, R.D. and Desai, H.B.	1991	Analysis of cauaes for failure	Planning Positioning	Policies Procedures Rules Systems	Risk management	Product development Diversification Niching Market development Market penetration
Gopal. R.	1991	Analysis: 1) Strenghts and weaknessesof the business 2) Market 3) Organizational structure and quality and quantity of manpower 4) Finances	Corporate and strategic plan	Replacement of CEO Streamline MIS	1) Funds injection 2) Centralization of cash management 3) Control expenditure 4) Sale of fixed assets 5) Rescheduling payments 6) Selective orders 7) Value add 8) Recruitment ban and staf reduction 9) Trading	Changes in purchases and recruitment procedures
Ketelhohn, W., Jarillo, J.C. And Kubes Z.J.	1991		1) Developed clear longer term vision 2) Doing things new 3) Doing things differently 4)Concentrate on efficiency improvements	Turnaround plan: 1) strategic process 2) appoint turnaround specialist.	Stop cash drain	

Pant, L.W.	1991				Turnaround financial: 1) pricing policies 2) product line 3) advertising 4) R+D 5) investment an production capabilities 6) size 7) product line diversification	
Castrogiovanni, G.J., Baliga, B.R. and Kidwell (JR), R.E.	1992	1) how sick is the business 2) Stages of decline 3) CEO management	Plan around stages of decline	Management replacement CEO replacement		
Chinta, R.	1992			Strategic		Operations
Majaro, S.	1992		1)Develop a vision 2) Develop a mission 3) Identify and develop shared values 4) Managing change 5) Develop sustainable competitive advantage 6) New product exploration and development	Turnaround strategy process and search		
Robbins, D.K. and Pearce II, J.A.	1992			Two-stage turnaround response model including governance factors.	Retrenchment	
Walker, R.	1992			Change in management		
Akason, B.D. and Kepler, J.P.	1993	Business review v/s due diligence. 1) Fully backed findings 2) Quantifications 3) Possible solutions 4) Guideline on managing a review which is also applicable to turnaround planning.	Strategic decision making in planning phase.			
Cascio, W.F.	1993			Less bureaucracy 1) faster decision making 2) smoother communication 3) greater entrepreneurship	Lower overhead	Increase in productivity

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Castrogiovanni, G.J., Justis, R.T. and Julian, S.D.	1993			Turnaround strategies: 1) learning through mistakes		
Chowdhury, S.D., and Lang, J.R.	1993				External financial support	
Fredenberger, W.B., Dethomas, A. and Ray, H.N.	1993			Return-to-normal: growth	Crisis: cash flow	Stabilization: profit
Freeman, S.J. and Cameron, K.S.	1993			1) Downsizing. 2) Differentiation between decline, reorganization.		
Merrifield, D. B.	1993	Disciplined analytical process	1) define objectives 2) establish management 3) entrepreneurial initiatives	1) internally generated developments 2) strategic alliances 3)joint ventures 4) consortia formation 5) minor equity participation 6) licensing arrangements 7) mergers and acquisitions		
Moncarz, E.S. and Kron, R.N.	1993	1) identify problem areas 2) using operational analysis to identify problem areas 3) effectiveness of management team 4) analysis of expenses				
Pearce II, J. A. and Robbins, D.K.	1993			1) change of management 2) organizational change and decentralization 3) growth via acquisitions 4) asset reduction	1) strong central financial control 2) cost reduction 3) investment 4) debt restructuring and other financial strategies	1) product/ market reorientation 2) improved marketing
Barker III, V.L. and Mone, M.A.	1994			1) Focus on retrenchment and a definition of a turnaround situation. 2) Retrenchment not a cause of turnaround performance but rather a consequence of a steep performance decline.		

Bruton, G.B. and Wan, C.C.	1994					Operating turnaround through improved efficiencies
Chowdhury, S.D. and Lang, J.R.	1994		Turnaround plan	Strategic turnaround; 1) changing / adjusting the current business 2) grand, long term moves / diversification 3) vertical integration 4) new market share initiatives 5) disinvestment	Revenue generation	Operating turnarounds 1) current conduct of business 2)short run tactics 3) cost cutting 4) asset reduction
Cole, S.R.	1994	investigative stage	Turnaround plan:			
Crawford, C.	1994	1) triage 2) holistic apparoach 3) proper diagnostics				
Fredenberger, W.B. and Bonnici, J.	1994	Informastion types: 1) Cost analysis 2) Expense analysis 3) Productivity and human resources 4) Productivity and phisical resources 5) Productivity of market financial analysis 6) Working capital analysis				
Hubbard, G., Lofstrom, S. and Richard, T.	1994	Analytical stage				
Pearce II, J.A. and Robbins, D.K.	1994 a				Turnaround strategy: - retrenchment	
Pearce II, J.A. and Robbins, D.K.	1994 b				Turnaround strategy: retrenchment	
Arogyaswamy, K., Barker III, V.L. and Yasai-Ardekani, M.	1995			Successful turnaround strategies: 1) retrenchment and efficiency-improvements, 2) critical contingencies, 3) time-sequential models complexity of process.		

Chen, Y., Weston, J.F. and Altman, E.I.	1995			Bankruptcy Process: 1) the time in bankruptcy 2) the effects on security prices preceding, during, and after the relevant "bankruptcy announcement" date. 3) default losses 4) application of absolute priority versus relative priority rules. 5) managerial incentives and the effect on managerial turnover and executive compensation 6) the role of exchange offers 7) the performance of the business after emerging from bankruptcy proceedings.		
Datta, S. and Iskandar-Datta, M.E.	1995			Turnaround model: Restructuring of: 1) management 2) financial 3) assets 4) governance 5) labour	Types of financial restructuring: 1) extension of maturity 2) waive covenants 3) provide additional debt 4) lenders receive equity / warrants / assets 5) reduce payments 6) defer payments /interest 7) reduce interest rates 8) pledge assets 9) accept restrictive covenants	

Detragiache, E.	1995		Debate cost of turnaround. 1) renegotiation with creditors, 2) establish worth as going concern, 3) debt forgiveness, 4) equity participation, 5) address agency problem - debtors and creditors, 6) Workout proposal either accepted or rejected by creditors. 7) Management maintains control of business and have "exclusive" rights to propose restructuring plan.			
Gopinath, C.	1995	1) security, 2) severity. 3) cooperation, 4) turnaround ability.		1) managerial turnaround, 2) restructuring, 3) financial workout, 4) legal recovery, 5) exit.		
Ketelhohn, W.	1995	Turnaround plan: - strategic process appoint turnaround specialist.		Turnaround plan: 1) strategic process 2) appoint turnaround specialist.	Stop the bleeding	
Senbet, L.W. and Seward, J.K.	1995	1) Information asymmetry 2) Conflicts of interest and coalition formation,		Court supervised methods of resolving financial distress or formal reorganization; 1) efficiency characteristics of the bankruptcy code, 2) empirical evidence, 3) direct costs, 4) indirect costs, 5) deviations from absolute priority rule, 6) the role of market mechanisms in formal reorganizations, 7) pre-package bankruptcies - sect.1126(b).	1) debt restructuring and private workouts, 2) potential impediments to privatization of financial distress, 3) free rider problem - exchange offer, 4) empirical evidence on debt restructuring, 5) interim asset sale market, 6) infusions of new capital	

Chowdhury, S.D. and Lang, J.R.	1996				Efficiency 1) better uses of organizational resources 2) internal processes 2.1) cost cutting 2.2) asset reduction 2.3) close marginal plants 2.4) down size staff 2.5) rebuilt inventory slowly 2.6) stress-cost cutting discretionary expenses 2.7) accounts payable 2.8) inventory level 2.9) receivables level	Entrepreneurial: 1) market orientation 2) resource acquisition 3) revenue generation 4) customer service 3) Turnaround measure: 3.1) sales growth 3.2) cost of goods 3.3) employee productivity 3.4) newness of plant 3.5) plant level.
Detragiache, E. And Garella, P.g.	1996				Debt restructuring-multiple creditors	
Franks, J. R., Nyborg, K.G. and Torous, W.N.	1996		Focus on comparing plans of distressed businesss' reorganization 1) within and outside formal bankruptcy process, 2) creditors claims, 3) deviation from priority. USA - Chapter 11, UK - receivership and Germany - New Code			
Jo, H. and Lee, J.	1996			Turnaround: Managerial/entrepreneurial role		
Martin, G.	1996			Leadership role in mangement of change		

Barker III, V.L. and Duhaime, I. M.	1997			Focus on strategic change in turnaround and the financial context of 1) turnaround attempts. 1.1) marketing changes, 1.2) manufacturing changes, 1.3) research and development changes, 1.4) financial policy changes. 2) organization structure, 2.1) changes in vertical differentiation, 2.2) changes in horizontal differentiation, 2.3) changes in integrity mechanisms, 2.4) changes in control systems, 2.5) changes in top management compensation.		
Bruton, G.B. Ahlstrom, D. and Wan, J.C.C.	1997	Rrecognise problems sooner business recognizes the decline, the sooner the turnaround will begin - greater the likelihood of successful turnaround.		1) Rretrench or somehow stop the bleeding,- cutbacks, 2) pursue efforts to turn business around 3) management replacement,		1) efficiency problem = operating solution, 2) reconfiguration of business = strategic solution.,
Dialy, C.M. and Johnson, J.L.	1997			Turnaround:) CEO role = financial performance 2)power is typically attributed to legitimate authority 3) agency theory		
Dodsworth, J.A..	1997	Due diligence	Turnaround plan			
Hart, O., Drago, R. LaP., Lopez-de-Silanes, F. and Moore,J.	1997		Not all businesss will survive the procedure as the winning reorganisation plan could be to wind up and dispose of assets.	Focus on a new proposal; 1) bankruptcy procedure 2) structural bargaining	Capital markets that does not function well. 1) Inside auctions of RR. 2) Public auction of RR to attract outside capital. 3) Which reorganization offer to accept.	

Hubbard, J. and Stephenson, K.	1997		Turnaround plan: chapter 11 approach 1) type of claims 2) all classes of creditors 3) distribution options			
Olivier, J.E. and Fredenberger, W B.	1997	2) situation analysis 3) emergency action		Management change	1) business restructuring 2) return to normal	
Pandit, N.R.	1997	Recovery Strategy stage: 1) Causes of decline 2) Severity of the crisis 3) Attitude of stakeholders 4) Industry characteristics 5) Changes in macroeconomic environment 6) Business's historical strategy		Recover Stategy Content: 1) Operational level actions 2) Strategic level actions 3) Recovery Strategy Process: 4) Management change stage 5) Retrenchment and stabilisation stage 6) Growth stage		
Sreenivas, I. S.	1997			Turnaround management		
Winn, J.	1997					Turnaround: growth
Al-Shaikh, F. N.	1998	Conduct feasibility studies,	Support from authorities interested.		1) Reduction of tax liability, 2) licences by government, 3) government subsidies, 4) export grants 5) government protection.	
Ariño, A. and de la Torre.	1998	Data collection and analysis				

Barker III, V.L. and Mone, M.A.	1998			Focus on managerial context of 1) turnaround attempts. 1.1) marketing changes, 1.2) manufacturing changes, 1.3) research and development changes, 1.4) financial policy changes. 2) Changes in organization structure, 2.1) changes in vertical differentiation, 2.2) changes in horizontal differentiation, 2.3) changes in integrity mechanisms, 2.4) changes in control systems, 2.5) changes in top management compensation.		
Brenneman, G.	1998	**Turnaround strategy:** 1) corrective action - getting all done fast, right away and all at once. 2) can't afford to think too much during a turnaround, 3) time is tight - money is tighter, 4) no time to devise elegant and complex strategies, 5) write down everything that is wrong, 6) change culture - fun, action and restore employees trust, 7) strategy to understood and coupled with key measures, 1	1) go-forward plan, 2) implement plan immediately - sell to co-workers, 3) track cash, 4) convince creditors of go forward plan, 5) discuss creditors contribution to exercise plan, 6) plan restructuring of debts, 7) replace management teams, 8) lead people - don't manage them, 9) present a muted front, 10) cut bureaucracy and costs, 11) chose the right people,	1) create new culture, 2) do change full and fast, 3) reduces costs, 4) test your product, 5) take care of best customers, 6) create new image, 7) allow employee to sort out strategy, 8) strong leadership is imperative, 9) let people control their own destiny, 10) superior communication.		
Hotchkiss, E.S. and Mooradian, R.M.	1998		Mergers and acquisitions			

Lee, J.	1998			Turnaround: Corporate governance		
Pearce II, J.A. and Robbins, D.K.	1998		Strategic plan include bankruptcy	Strategic plan include bankruptcy		
Smith, W.J.	1998		define the change plan	1) Change the management 2) retrench for control 3) develop and re-posture 4) return to growth		
Zhang, C.	1998	Due diligence	Turnaround plan:			
Bibeault, D.B.	1999	Evaluation stage	Turnaround plan; 1)Turnaround tactics 2) management change stage 3) emergency stage 4) stabilization stage 5) return to normal stage	1)Emergency strategy; liquidation/disinvestment, productelimination, head count cuts 2) Stabilization - disinvestment, product-mix enhancement, improve operations, reposture the business 3) Return-to-growth - acquisitions, new products, new markets, increase market position	Emergency strategies; disinvestment cash flow analysis and control, debt restructuring, working capital inprovements, profitability analysis, cost-reduction suppor, "creative" acounting elimination. stabilization-asset redeployment, retention divestment packages, increasing lisuidity, financial, liquidity improvement, balance sheet clean-up, control system developement , managerial accounting developement . operations, profit improvement programs, developement of manaufacturing efficiencies,	1) Operations-shutting down, 2) reducing manpower, 3) reducion inventory 4) investment, 5) controlpurchasing, increaseing productivity. marketing-pricingproduct line, promotion, 6) place,.employees in divested ops, executive cutbacks, mid level cutbacks,rank-and-file head count reduction.

					pricing, promotion, place (distribution0 improving people mix. organizational conflict, compensation plans to support turnaround effort, get people to C39think profit) - return-to growth-asset redeployment, creative dinancing schemes, tight financial discipline, special techniques, developement expenditures, mamagement by objectives, marketing starategies and tactics, management developement	

Bibeault, D.B.			Objective		addition to stabilization controls, quarterly planning reviews.G38-stabilization-asset redeployment, retention divestment packages, increasing lisuidity, financial, liquidity improvement, balance sheet clean-up, control system developement , managerial accounting developement . operations, profit improvement programs, developement of manaufacturing efficiencies, pricing, promotion, place (distribution0 improving people mix. organizational conflict, compensation plans to support turnaround effort, get people to think profit 2.3.3) - return-to growth-asset redeployment, creative dinancing schemes, tight financial discipline, special techniques, developement expenditurem amagement by objectives, marketing starategies and tactics, management developement	

						programs.	
Bibeault, D.B.						2.4) review and control. 2.4.1) - emergency- hands-on managenment, daily and weekly cash reports 2.4.2) - stabilization- managerial accounting emphasis, weekly operations re-reviews, monthly profit and loss reviews 2.4.3) - return- to growth- in addition to stabilization controls, quarterly planning reviews.	

Borain, A.	1999		Stabilization-profit improvement, earn acceptable ROI			
Bowman, E.H., Singh, H., Useem, M. and Bhadury, R.	1999		1) Selling old lines to acquire new lines, 2) repurchasing stock and introducing business units to downsizing work forces.	Three methods of restructuring: 1) portfolio restructuring, 2) financial restructuring, 3) organizational restructuring.	Accounting performance.	Market performan
Castelli, V. and Kontoyiannis, I.	1999	Analysis	Turnaround process: 1) Use of simulations 2) Monte Carlo 3) Use of data sets.			
Longenecker, C.O., Simonetti, J.L. and Sharkley, T.W.	1999			Turnaround strategy: 1) increase voice of front-line management personnel in organizational improvement efforts 2) provide front-line leaders with clear and unambiguous goals that do not lose sight of profitability and customer satisfaction. 3) effective planning and real change go hand in hand. 4) develop organizational proficiency at corrective action and make it easier for people to get their work done. 5) do not underestimate the power of highly trained and motivated people 6) improve effective communication 7) focus on leadership		
Whitaker, R.B.	1999					Turnaround: 1) change in performance 2) change in market value
Castrogiovanni, G.J. and Bruton, G.D.	2000		Turnaround planning: reconsidering the role of retrenchment.		Retrenchment:	

Cozijnsen, A.F., Vrakking, W.F. and Van Ifzerloo, M.	2000		Turnaround Plan: 1) planning objectives 2) organizational 3) increased profits 4) increased turnover 5) increased efficiency 6) improved effectiveness 7) higher productivity 8) increased market share 9) improved environment 10) quality improvement 11) Human objectives 12) reduction of staff turnover 13) increased employee satisfaction 14) enhanced motivation of employees 15)- improvement of work environment			
Harker, M. and Sharma, B. *T*	2000	Is there a business?	1) destiny planning 2) developement	Turnaround actions: 1) conditioning factors 2) action/interactional strategies 2.1) inquiry ncouragement 2.2) empowerment 2.3) developing destiny 2.4) communicate destiny 2.5) develope leaders 2.6) build respect and trust 2.7) achieve and reward 2.8) sustain and strecth organization 3) consequences 3.1) destiny developement 3.2) enhanced involvement 3.3) empowerment 3.4) commitment 3.5) leader amplification 3.6) develope respect/trust		

Kisfalvi, V.	2000			Turnaround strategy: 1) survival 2) autonamysuccess and achievement 3) recognition 4) action		
Pandit, N.R.	2000		Cost of turnaround			
Shepherd, D.A., Douglas, E.J. and Shanley, M.	2000			**Turnaround** psychology risk reduction strategies		
Theriot, A., Roopchand, D., Stigter, H. and Bond, H.	2000	Analysis: 1) Identification of all elements, design, operations, maintenance, external influencing and factors that will adversely impact on business plan. 2) Optimization of planned design, operations, maintenance	1) Input to operations plan that will manage and control residual risks to plan 2) All to be translated into economic impact on turnaroud project			
Balgobin, R. and Pandit, N.	2001	1) Decline and crisis, 2) Triggers for change, 3) Stuation analysis,	1) Recovery strategy formulation, 2) Developed a turnaround plan, 3) Create a crisis before one hits you.	Turnaround process; 1) Retrenchment and stabilisation, 2) Return to growth. 3) Strategy execution, 3.1) gaining control, 3.2) managing stakeholders, and improving motivation. 3.3) manager changed with turnaround; 3.4) be alert to the possibility of decline,		

Barker III, V.L., Patterson, P.W. and Mueller, G.C.	2001			Focus on managerial context of 1) turnaround attempts. 1.1) marketing changes, 1.2) manufacturing changes, 1.3) research and development changes, 1.4) financial policy changes. 2) Changes in organization structure, 2.1) changes in vertical differentiation, 2.2) changes in horizontal differentiation, 2.3) changes in integrity mechanisms, 2.4) changes in control systems, 2.5) changes in top management compensation.		
Carrol, J.S. and Hatakenaka, S.	2001			Turnaround: staff issues		
Chandra, V., Moorly, L., Nganou, J-P., Rajaratnam, B. and Schaefer, K.	2001		Turnaround strategy formulation 1) cost of turnaround. 2) SMME accessibility			
Cohen, J.F.	2001	Turnaround Importance of strategic planning				
Cook, G.A.S., Pandit, N.R. and Milman, D.	2001		1) Informal arrangements 2) Rehabilitation structures outlined by law 3) Liquidation			
Ireland, R.D., Hitt, M.A., Camp, S.M. and Sexton, D.L.	2001		Turnaround planning: strategic management action			
Mueller, G.C., McKinley, W., Mone, M.A. and Barker III, V.L.	2001		Turnaround: retrenchment and practitioner role.			

Sudarsanam, S. and Lai, J.	2001		Turnaround restructuring strategies 1) operational restructuring 2) asset restructuring 3) asset sales 4) acquisitions 5) internal capital expenditure 6) managerial restructuring 7) financial restructuring 8) dividend cut/ omission 9) equity issue 10) debt restructuring	Turnaround strategy: 1) restructuring strategies 2) operational restructuring 3) asset restructuring 4) asset sales 5) acquisitions 6) internal capital expenditure 7) managerial restructuring	1) financial restructuring 2) dividend cut/ omission 3) equity issue 4) debt restructuring	
United Nations General Assembly.	2001		Plan and other proposals			
Barker III, V.L. and Barr, P.S.	2002			Focus on strategic reorganization in turnaround and the financial context of: 1) turnaround attempts. 1.1) marketing changes, 1.2) manufacturing changes, 1.3) research and development changes, 1.4) financial policy changes. 2) organization structure, 2.1) changes in vertical differentiation, 2.2) changes in horizontal differentiation, 2.3) changes in integrity mechanisms, 2.4) changes in control systems, 2.5) changes in top management compensation.		
Bergstrõm, C., Eisenberg, T. and Sundgren, S.	2002			Focus on security priority in turnarounds and creditor behaviour. Discussion on Finnish reorganisation law.		

Brockman, P. and Turtle, H.J.	2002	1) Method to value businesss, 2) Corporate security values, legally binding barriers and corporate business covenants	.			
Collard, J.M.	2002	Diagnostic stage 1) Fact-finding: 2) Is busniess viable 3) Purpose of the business 4) Should it be saved? 5) Why should it be saved? 6) Core business 7) Sufficient cash resources 8) Management leadership	Chose course of action			
Cross, L.	2002	Analysis	1) Actual restructuring measures 2) Measure to ensure long-term profitable growth.	1) Strategy to follow 2) Steps in turnaround 2.1) devastating events 2.2) call for help 2.3) turnaround begins 2.4)stabilization 2.5) transformation		
Frese, M. Brantjes, A. and Hoorn, R.	2002	Opportunistic scanning of environment	Complete planning	Critical point strategy	Reactive strategy	Reactive strategy
Ghosn, C.	2002			1) acquisition diferences 2) management change 3) cultural challenges	Disinvesting "poor" investments	focue on performance
Hausman, M.J.	2002	Due-diligence				
Hill, J. Nanecarrow, C. and Wright, L.T.	2002		Planning consederation: 1) relocation 2) obtain additional finance 3) renowned sales effort 4) restructure staff 5) change product profile 6) other creative solutions 7) dabble in specific marketing techniquies 8) investment in equipment and			

			physical resources			
James, D,N.	2002	1) Routine for rescue; 2) Commission a solvency report,	Re-establish company as going concern,	1) selling of business 2) find hidden heroes, 3) if necessary sweep the old leaders, 4) take decisions - even wrong ones,	1) Focus on turnaround experiences. 2) Turnaround actions: 3) generate more cash, 4) help the company to stay solvent. 5) grab the chequebooks, 6) get more money than you think you need.	
Pitchson, M.	2002	Profile: 1) Business model and initial evaluation 2) Initial cash position	Future funding potential Goal to bring company to viability	Management review	1) Cash burn 2) Debt negotiation 3) Results	
Sprayregen, J.H.M and Friedland, J.P.	2002		Pre-packaged turnaround			
Booker, M.	2003			Mamgement strategy	Emergency-survival return to positive cash flow	
Borch, O.F. and Brastad, B.	2003		1) Return-to growth- growth and developement, growth in market share 2) Business strategy: 2.1) competitive positioning, 2.2) organizational, 2.3) political.	Strategic factors: 1) dynamic development capability, 2) cooperation capability, 3) international network capability, 4) political influence, 5) production flexibility, 6) branding differentiation 7) promotion differentiation, 8) cost leadership, 9) niche focus.		Resource focused organizational sub-strategy. 1) competence, 2) routines, 3) personal commitment, and working culture.

Bruton, G.B. Ahlstrom, D. and Wan, J.C.C.	2003				Retrenchment : Labour Assets Products Overhead	
Evans, J.	2003		Resource allocation			
Fetterman, W.H.	2003	Turnaround situation analysis: 1) Introduction and operational understanding. 2) Assessment	Turnaround plan compilation. 1) New set of operating assumptions 2) Fewer facilities 3) Different management new production practices 4) Revised process flow 5) Financial requirements	1) management change, 2) emergency action, 3) business restructuring 4) return to normal.		
Glantz, M	2003	1) Determine why company is filing for Chapte11 - overleverage - operating performance problems - lawsuits - get out of leases of contracts - lack of alternative financing 2) Evaluate depth and quality on management. - management capacity and depth to focus on bankruptcy? - maintain core business 3) Determine viability of business - impact of negative publicity - will business be able to emerge out of Chapter 11? - asset values as going concern 4) Review business's prepetition liabilities. - review most recent balance sheet.	Analise companies projections 1) detailed projections and balancesheet flows are neceesry to develpoe cash flow projections. 2) estimate borrowing requirements 3) reconstruct balance sheet 4) reconsider position of debt 5) reconstruct income statement 6) develope pro fprma what if statements 7) compare payments made previous year 8) include extras 9) analise collateral and liquidation 10) estimate liquidation value 11) worst case liquidation - debt not to be greater than worst case 12) audit company's systems integrity.			

		- determine secured and unsecured liabilities - secured vs unsecured securities under chapter 11 5) assets - most recent assets - determine encumbered and unencumbered assets - determine priority of securities				
Glantz, M.	2003					
Harvey, N.	2003	1) Evaluate management effectiveness 2) Install a management audit to appraise: the information — the system and control procedures — the organisation structure — the technical and management competence	1) Change the management system and routine 2) Produce integrated long-term and short-term plans	Change the organisation structure	1) Cut salaries and indirect wages 2) Cut running expenses 3) Cut fixed costs 4) Change the organisation structure nstall tight budgeting: to cut marginal expenses, to promote marginal opportunities and to make interactive savings 5) Install the tight budget sequence throughout the company at all levels	Buy services from outside: research, product development, data processing, accounting, graphics, promotion, sales support, public relations, library information, market sta¬tistics, personnel, advertising, etc. Use sources of outside data as well as internal Figures

Harvey, N.	2003				Financial accounting (business infrastructure) • Correct accounts for inflation; watch machinery deprecia¬tion, stock valuations, land and property valuations, the value of borrowings • Negotiate credit terms through purchasing department • Delay payment to creditors • Pursue overdue accounts through better control, better communications • Negotiate terms of business strictly through sales calling on debtors' bought ledger departments and financial controllers • Speed up cash management by stage payments, rapid bank¬-ing, flexible sources of finance, fast invoicing • Improve security • Cut departmental salaries and wages • Cut departmental expenses • Cut departmental fixed costs • Reduce capital base	Purchasing: (procurement) • Identify the company's purchasing Decision Making Unit • Examine over-specification • Improve supplier search and evaluation procedure • Promote purchasing function to contribute to management decisions • Apply a weighting system to purchases: Degree of essen¬tiality of product — Level of risk in purchase — Proportionate cost against total purchases • Apply a continuous evaluation of offers • Concentrate upon the high value materials and components • Apply regular stock checks • Apply better quality control on goods inward Survey existing suppliers for cost reduction ideas Take discounts for prompt payment

					through use of flexible assets, leasing, bought-out services Activity based costing • Replace historical accounting with standard costing • Question established rule of thumb allocations • Use more flexible costing approach • Break down variances further • Faster reconciliation with financial accounts • Cost products and product groups down to net profit • Cost control materials: identify wastage, rejects, breakages systems	
Harvey, N.	2003				• Introduce cost accountant to: purchasing department and marketing department • Cost the following to net profit: large orders, customers, markets, depots and sales areas	Negotiate new terms Alter product design to allow for standard parts purchasing Improve stock control and re-ordering system Involve purchasing in product elimination decisions Place guaranteed orders in exchange for bulk prices Improve supplier evaluation for: failure prevention costs — accident costs — level of service — accuracy

Harvey, N.	2003					• Allocate factory indirect costs to products • Alter stock valuation standards and correct for inflation • Set labour cost standards closer to realised costs than to ideal • Identify highly productive labour costs • Alter transfer pricing Reduce labour costs: reducing frequency of performing the task — identifying the highly productive tasks — change equipment or personnel — eliminate idle time — eliminate overlapping work — eliminate duplicate work — eliminate overtime — establish standards of performance	Use supplier development techniques: in key materials areas — in high costs areas — in situations of doubtful supply — for unusual demands — for too distant suppliers — for non-standard parts — for excess production capacity

Harvey, N.	2003				Use less space by condensing operation Apply method and work study to activities Cut plant and space costs Cut indirect salaries and wages; engineering, other services Replace fixed costs with flexible costs; use outside services instead of high cost internal services Apply job enrichment programme to work Apply productivity bargaining: incentive schemes — job evaluation — fixed term contracts — labour flexibility and mobility — change working methods A	When materials are in short supply consider techniques of purchasing: coercion, inducement, education, persuasion Production (operations) Check tolerances in specifications and widen Check quality control limits and widen Limit disruption to.work flow Reduce prime costs Introduce value analysis to examine 'use' and 'cost' values Introduce value analysis engineer to purchasing depart¬ment Introduce value engineering to new product development and to process development
Kanter, R.M.	2003		Turnaround plan: The psychology of turnaround: - promoting dialogue - engendering collaboration - inspiring initiative			
Kor, Y.Y.	2003			Turnaround strategy: 1) management replacement, 2) focus on management, 3) retention of management experience, 4) management competence.		
Maitlis, S. and Lawrence, T.B.	2003	Turnaround strategy: 1) engaging with and taking position on the	1) assigning responsibility and accountability 2) constructing			

		issue at hand 2) defining the concept	the objec			
Miller, D., Steier, L. and Le Breton-Miller, I.	2003		Turnaround plan: what to look for in family business.			
Riana, B,. Chanda, P. and Metha, D.P.	2003		Turnaround: plan, steps, process. 1) leadership to provide vision, induces creativity, challenge existing assumptions 2) support by financial institutions 3) gaining trust from suppliers 4) maximise productivity 5) maximise capital utilisation 6) manpower rationalization 7) stringent working capital management 8) stretching targets-maximise asset capacity 9) streamlining systems 10) inveting in technology upgrading 11) financial restructuring 12) low cost regime	Leadership role in management of change	Stop the bleeding	
Scherrer, P.S.	2003	1) analysis of the situation, one week to one month 2) Accuracy of financial statements 3) Determine true value 4) Investigate budgets and projections	Creation of a plan, one to two weeks;	Strategic turnaround redefines the business implementation of the plan, six months to one year 4) stabilization of the business: six months to one year 5) return to growth of the business, one to two years	Financial turnaround 1) Restructures the financial operation. 2) Revenue generation 3) Cost-cutting Asset reduction	1) Operational turnaround changes operations 2) Productivity/market refocusing
Anon	2004 a		Turnaround: 1) different skills set requirement 2) skilled team of individuals			

Anon	2004 b		Turnaround plan: (court approval) 1) acting in good faith 2) probability of a viable proposal if extention granted 3) no creditor would be materially prejudiced			
Anon	2004 c	Investigative stage		Plan implementation.		
Anon	2004 d	Analyzing the business and/or strategic plan	Plan to determine how business objectives can be met		1) stabilizing the situation by reducing cash losses and increasing cash flow 2) repositioning the company through financial restructurion	Strengthening the business through orgznizarional restructuring
Anon	2004 e				Turnaround plan: creditor intervention and non-approval. Chapter 11.	
Ballow, J.J., Burgman, R. and Molnar, M.J.	2004	Assesment of asset types to determine real value				
Busby, J.S., Hibberd, R.E., Mileham, A.R. and Mullineus, G.	2004	Turnaround analysis				
Craighead, C.W., Karwan, K.R. and Miller, J.L.	2004			Turnaround strategy- service orientation: 1) antecedents to recovery expectations 2) loyalty 3) quality 4) severity 5) guarantees		

Gaglio, C.M.	2004			Turnaround strategy: 1) Cognitive response to change. 2) Optimal allocation decision. 3) Entrepreneurial behaviour. 4) Quick to grab and comprehend new opportunities. 5) Shy away from trouble time - defence meganism.		
Gilley, K.M., McGee, J.E. and Rasheed, A.A.	2004					Outsourcing
Gudmundsson, S.V.	2004	Turnaround: success factors in airline - in absence = warning sign				
Hershkowitz, B.	2004	Valuation of collateral				
Huson, M.R.,Malatesta, P.H. And Parrino, R.	2004		Turnaround plan: 1) management succesion and performance	CEO replacement		
Kow, G.	2004 a	Sound understanding of capabilities		Turnaround strategy elements: 1) an appropriate strategy vision 2) an organizational structure 3) a set of business processes 4) a human resource architecture that will support the vision 5) technological innovation that will nourish organization and enhances product range 6) organizational cultures that will accept and commit to effort.		
Kow, G.	2004 a			Turnaround steps: turning events to structure		
Lohrke, F.T., Bedeian, A.G. and Palmer, T. B.	2004	Management role: 1) quickly and accurately 2) determine the cause of business performance lapse	Implement decision necessary for prompt recovery/turnaround	1) Process; 1.1) phase 1 1.2) phase 2 1.3) phase 3 2) Psychology of turnaround 2.1) psychological response		

Longman, A. and Mullins, J.	2004					Turnaround similarities with project management
McCarthy.	2004			Turnaround dimentions: 1) people 2) change		
Nutt, P.C.	2004	Turnaround tactics: 1) idea 2) benchmarking 3) solicitation 4) innovation 5) innovation-objectives and multi options				
Orme, D.	2004	1) situation analysis 2) implement emergency action		Turnaround stages: 1) management change 2) business restructuring 3) return to normal Turnaround psychology		
Sauner-Leroy, J-B.	2004			Turnaround psychology: 1) risk taking attitude under uncertainty 2) Mangersment 3) banks/lemders 4) trade creditors		

Shook, S.R., Vlosky, R.P. and Kallioranta, S.M.	2004					1) expand market reach 1.1) new markets 1.2) greater market penetration 2) increased market velocity 2.1) shorter order cycle due to suply chain collabortion 3) achieved competitive advantages 3.1) improved or enhanced custome services 4) operational efficiencies 4.1) reduced sales cost 4.2) reduced inventory 4.3) reduced search time 4.4) lower costs alternative to EDI 4.5) collaboration 5) scale and spend aggregation 5.1) economies of scale 5.2) increased leverage in negotiatons 6) transaction automation 6.1) reduced order processing costs 7) disintermediation 7.1) lower prices 7.2) greater power in the supply chain
Walshe, K., Harvey, G., Hyde, P. and Pandit, N.	2004		Planning phases 1) recovery strategy formulation 2) retrenchment and stabilisation 3) return to growth		Turnaround interventions 1) replacement 2) retrenchment 3) renewal.	

Wickham, P.A.	2004			Turnaround strategies: 1) business continues to exist as a legal entity under the control of the entrepreneur 1.1) business performs well financially but does not meet the social and self-developement needs of the entrepreneur 1.2) business fails to achieve set of strategic objectives 1.3) the businss fails to perform as well as was planned but is financially secure 1.4) the business fails to perform as well as was planned, and needs additional finance 2) the business continues to exist as an independent entity but the entrepreneur loses control 2.1) the business is taken over as a going concern by new management 2.2) the business is taken over with restructuring 3) the business does not continue to exist as an indipendent entity. 3.1) the business is taken over as a going concern and absorbed into another company 3.2) the business is broken up and its assets disposed of		
Anon	2005	Analyzing the situation		Turnaround strategy: 1) changing the management 3) implementing and emergency action plan 4) restructuring the business 5) returning to normal		
Appel, M.	2005	Investigative 1) final business review determine potential for 2) successful turnaround	Determine key turnaround initiatives	1) Implementation of key turnaround initiatives 2) Selling the company		

Brodsky,J.A.	2005	Analysis: 1) What was each business 2) Long and short term issues 3) Have a winning model 4) Deal on the hook for funding 5) Should funding still be provided? 6) Structure of organization 7) Reporting lines 8) Employee profile 9) Business plan for each asset	Establish business plan for restructure	1) Retrenchment 2) Shut down on on productivity	Safeguard cash resources Funding opportunities	
Brown, S.	2005	Assessment of business	Plan to restructure and turnaround	1) Alignment of performance incentives 2) Improving financial controls 3) Enhancing manufacturing operations	1) Reduce costs 2) Squeeze working capital 3) Generate near-term cash 4) Raise cash by selling assets 5) Refinance senior debt.	
Burbank, R.K.	2005	Situation analysis		1) management change, 2) emergency action, 3) business restructuring 4) return to normal.		
Carapeto, M.	2005		Turnaround strategy: Formal vs. Informal			
Dobson, P.	2005	Assessment of talent				Management 1) development of talent 2) support existing senior managers
Francis, J.D. And Desai, A.B.	2005			Outside support	Expense retrenchment	Operational restructuring
Fraser, J.A.	2005				Debt restructuring	
Garvin, D.A. and Roberto, M.	2005	Setting the stage: communication	Creating the frame: plan and acceptance	1) Managing the mood: 2) Reinforcing good habits 3) values		

Hass, W.J. and Pryor IV, S.G.	2005			1) management must have the enthusiasm that inspires people 2) everyone in the organization must have a strong bais for action 3) understanding to cunsumer fully and clearly		
Jas, P. and Skelcher, C.	2005			Turnaround in public organization: 1) more complex than business environment 2) closure and takeover risk 3) performance measurement.		
Kam, J.	2005	Turnaround introduction 1) Environmentail scanning 2) Managerialbeha viour traits				
Kiessling, T.S. and Richey, R.G.	2005		Turnaround plan: - acquisition			
Kim, W.C and Mauborgne, R.	2005		Turnaround strategy: Principles of Blue Ocean strategy 1) Formulation principles 1.1) reconstruct market bounderies 1.2) focus on the big picture, not the numbers 1.3) reach beyond existing demand 1.4) get the strategc sequence right	Execution principles 1) overcome key organizational hurdles 2) build execution into strategy 3) risk factor each principle alternatives 4) search risk 5) planning risk 6) scale risk 7) business model risk 8) rick factor each principlel alternative		1) organizational risk 2) management risk Four actions framework 1) reduce 2) eliminate 3) create 4) raise
Loubser, A.	2005			Turnaround: staff retrenchments		
Mellahi, K.	2005			Turnaround strategy: 1) board 2) management 3) psychology of turnaround		
Morris, R.	2005		Turnaround plan: Drivers 1) time as driver 2) secured lender driver stakeholder driver 3) trade creditor			

			driver 4) management integrity				
Muir, K.	2005		Turnaround cost of turnaround				
Probst, G. and Raisch, S.	2005			Turnaround strategy: 1) sustainable growth 2) stable change 3) healthy orgznizational culture 4) keeping the balance Turnaround psychology how to prevent failure			
Rasheed, H.S.	2005			Turnaround strategies: 1) growth 2) retrenchments 3) strategy formulation			
Sargeant, J.R.	2005			1) redefine rates of management 2) upskill management	Turnaround strategy: 1) restructure finance agreements		
Sheppard, J.P. and Chowdhury, S.D.	2005			Turnaround strategies: 1) decline 1.1) K-extinvtion 1.2) R-extinction 1.3) stimulus 2) response initiation 2.1) domain definition 2.2) scope overlap 2.3) strategic contours 3) transition 3.1) elapsed time 3.2) resource commitment 3.3) policy/programs 3.4) structure and rewards 3.5) people 4) outcome 4.1) success/failure			

Smith, M. And Graves, C.	2005	Distressed state: 1) severity 2) firn size 3) free assets available 4) cause of decline 5) competitive position		Decline stemming strategies 1) stakeholder support 2) efficiency 3) internal climate and decision processes 4) stability 5) recovery strategies adopted 6) maintenance of efficiency 7) entreprneurial reconfiguration 8) extent of recovery turnaround		
Winer, P., Levenstein, E. and Gewer, D	2005			Sale of business or part as going concern	Turnaround steps: 1) debt forgiveness 2) debt resheduling 3) debt equity convertion	
Boyne, G. and Meier, K.	2006			Modelling turnaround: 1) retrenchment, 2) repositioning, 3) reorganization.		
Chathoth. P.K., Tse, E.C. and Olsen, M.D.	2006				Stages in turnaround: 1) retrenchment 2) recovery	
Cocq, M., Legoux, F., De Loe, P., Oka, G. and Zorn, A.	2006	Liquidation and going concern value	Plan; 1) replace slow moving inventory with higher turn inventory 2) closing under performing stores 3) closing distribution centres 4) reduce SG+A cost 5) value entity-liquidation and going concern value 6) Proposed Plan: 6.1) strategy 6.2) implementation 6.3) free cash flow valuation			
Couwenberg, O. and De Jong, A.	2006			The role of banks in turnaround		

Falkenberg, A.D. and Glamheden, H.A.	2006			Turnaround: 1) management replacement / favourable composition of top management teams. 2) tenure in top management tend to be negatively related to turnaround success, 3) management; functional heterogeneity / functional		
Farris,B., Lee, H., Maitrejean, J.,Schauer, J. And Seyffert, N,	2006				1) Aggresive cost control 2) Process control 3) Maximise return on invested capital	1) Customer - faced approach to growth 2) Company-wide focus on technology 3) Energized associates / employees
Filatotchev, I. and Toms, S.	2006	Asset valuation.	Realignment.			
Hart, M.L.	2006		Turnaround plan: - customer retention			
Holcomb, T.R. and Hitt, A.H.	2006			Strategic outsourcing		Turnaround strategy: outsourcing
Lewin, B.P.	2006				Turnaround: 1) collaterized debt & asset specificity	
Lewin, B.P.	2006				Turnaround plan: World bank requirements; Characteristics for successful out-of-court financial restructuring 1) number of main banks 2) inability to service debt 3) negotiate an arrangement 4) sophisticated refinancing 5) can be swift move to insolvency law 6) benefit for all through negotiation 7) no need for	

						relief from trade debt 8) neutral or favourable tax treatment	
Pearce II, J.A. and Michael, S.C.	2006	Turnaround step to be taken - recession: 1) position the company in multiple markets and geographies	2) plan to confront declining sales				1) promote the business's products and services 2) maintain advertising 3) introduce new products 4) find alternatives to price cuts 5) attract new customers 6) prepare for economic recovery
World Bank	2006		Reorganization plan and Process				
Agarwal, V. and Taffler, R.	2007	Turnaround assessment: contingent claims valuation methodology. 1) Market share %. 2) Share of defaulters%. 3) Average credit spread%. 4) Revenue in monitory terms. 5) Loss in monitory terms. 6) Profit in monitory terms. 7) Return on assets %. 8) Return on risk-weighted assets%					

Benbrahim, H., Bozotto, R., Grossi, L., Teillon, G. and Ure, J.	2007	1) The company history and situation analysis data. 2) Head office expenditure will have to be cut down to acceptable levels. 3) Recommend that management re-assess this area more aggressively on a value add basis.	1) Focus on Turnaround plan and on increasing shareholders equity and returning business to profitability. 2) The focus on increasing shareholders' equity and returning to profitability.	Co must take immediate action to close its underperforming footprint.	1) Business will continue to rely on external financing for the unforeseeable future. 2) The financial reflects a dismal performance for the last fiscal. 3) The way financial reporting is managed is not conducive to effective cash flow management. 4) The outlying offices are treated as income centres only and thus distort the real contribution from these business units.	
Blinkenberg, C., Kadakia, s., Yao, M. And Zangrilli, P.	2007	Analysis of the business: 1) Financial 2) Market Position 3) Operation 4) Strategy 5) Management 6) Corporate Governance 7) Non-market factors	Management strategy and benchmarks.			
Byers, M.	2007	1) Strategic performance review 2) Viability review 3) Management assessment				
Campbell, N.D., Kirk, C.H. and Rogers, T.M.	2007			Turnaround-measures of economic freedom impacting on entrepreneurial activity.		
De Wet, J.H.vH. and Du Toit, E.	2007	Turnaround valuation				

Du Plessis, R. and Matarirano, G.	2007		Turnaround plan			
Fontannaz, S. and Oosthuizen, H.	2007			Turnaround: 1) management performance 2) sustainable growth		
Fukui, Y. and Ushijima, T.	2007	Business valuation.				
Han, C., Huml, A., Kagalkar, A., Saito, L. and Sundjaja, K.	2007			Refocus strategy	1) cost reduction plan 2) expand revenue oppertunities	
Longenecker, C.O., Mitchell, M.J. and Fink, L.	2007			Turnaround: managerial impact		
Shepherd, D.A.	2007			Turnaround psychology Emotional cost of failure		
Baker, A., Cassidy, L., Goodman, J., Siegel, J. And Ulin, E.	2008		1) Focus on what customers want 2) Focus on core operations 3) Modernization Improve performanc			
Carlson, A.P.	2008			Strategic issues involving: Labour in turnaround		
Choi, D.Y. and Edmund, R.G.	2008			Turnaround: corporate social responsibility King III on business rescue		
Epstein, D., Ostroff, S., Sand, M., Selvnvthan, S. And Twerdun, D.	2008			Problem solving cognition	Debt restructuring	

Jostarndt, P. and Sautner, Z.	2008	Investigate; 1) how ownership structures change when businesss are in distress. 2) whether ownership structure and changes therein are related to management turnover when businesss are in distress. - costs of workouts.	Legal requiremens: 1) differences inb legal requirements Germany vs. Use. 2) fresh equity capital - placed in rights issue and private and public placing. 3) debt restructuring - private renegotiations. 4) equity write down for over indebted company, 5) provision of fresh money by creditors, 6) mergers and acquisitions - take over's, 7) change of management.	1) Focus on financial distress and management turnover. 2) Business lifecycle. 3) Actual role of creditors in restructuring of financially distressed businesss.	Outcome of turnaround; 1) private investment reduced substantially, 2) bank investment increases under continuing distress, 3) ownership of directors during distress cycle, non-executive directors increase, 4) management turnover due to distress increase 22%, 5) turnover in CFO and CEO increases rapidly in response to poor performance.	
Martin, R.D. and Kimberly, J.R.	2008			1) Outside management 2) alignment around common principles 3) people centred 4) clear expectations 5) mission driven, operations based, corporate support. 6) authority preceeds accountability 7) organizational due process to govern resolution of all disagreements 8) dispute resolution - all parties present. 9 creating vision and objectives imolement information system 10) chart course of business 11) the right team 12) complementary background and experience 13) drew upon diverse skills and perspectives	Curtail capital expenditure 1) implement financial performance plan 2) implement revenue cycle improvement initiative no nonsense accountant	1) series of signifficant layoffs modest learning curve 2) creating a "burning platform" 3) metaphor - burning platform 4) raise awareness of platform 5) three messages: organization commitment to turnaround, entire organization will partake, management confidence. 6) achieve or exceed service excellence goals 7) adhere to organizational effectiveness principlels 8) set specific goals and targets

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Martin, R.D. and Kimberly, J.R.	2008			1) balancing accountability and flexibility 2) articulate need to move decisions 3) assign clear responsibilities for decision. 4) developing and implementing work plans and metrics 5) secure agreement on benchmarks 6) set aggressive targets 7) relentless communication 8) keeping messages simple and direct 9) constant reminders 10) call on quick response 11) involving key stakeholders 12) resolve in the face of setbacks and resistance 13) resistance to change is inevitable 14) internal resistance 15) getting the right people on the bus.		
Ormanidhi, O. and Strings, O.	2008			Turnaround strategy:		
Pearce II, J. A. and Robbins K.	2008			Turnaround strategy: Approaches top deploy to reduce the chances of a recurance of the turnaround situation		

Pretorius, M.	2008 a			Turnaround strategy: 1)Underperformance 1.1) efficience strategy 1.2) protect/strengthen 1.3) cost cutting 1.4) capacity improvement 1.5) generate cash 1.6) outsource 1.7) productivity 1.8) asset reduction 2) Distress 2.1) forced repositioning strategy 2.2) strategy revision 2.3) alternative revenue streams 2.4) find new products 2.5) alternative markets 2.6) forced to innovare 2.7) diversify 2.8) differentiate 2.9) acquire 3) Crisis 3.1) last resort strategy 3.2) defensive merger 3.3) divestiture 3.4) liquidation 3.5) debt forgiveness		
Pretorius, M.	2008 b			Turnaround strategy: 1) strategic reorientation 2) unused debt capacity 3) leadership 4) liabilities of turnaround managers 5) turnaround psychology/cognition		
Pretorius, M. and Holtzhauzen, G.T.D.	2008	Turnaround process: 1) liability- data integrity 2) liability- legitamacy 3) liability- resource scarcity 4) liability- strategy options 5) liability- leadership				
Varvarigos, D.	2008		Turnaround plan: Human impact on sustainable growth			

Behm, R., Bruno, A., Nue, T. and Urbani, K.	2009	Analysis of operating cash 1) SWOT analyses 2) Strategy ananlysis principle company strategy resent strategic initiatives strategy diamond 3) Industry analysis 4) Comparable company and performance analysis 5) Performance ratios solvency covenants 6) Corporate structure 7) Biographics of management 8) Porter five forces analysis	Restructure plan: 1) liquidity improvements 2) financial restructuring 3) operational improvements 4) tax improvements			
Chi, L.	2009				Debt restructuring	
Coetzee, J.	2009				Schemes of arrangements.	
Dev, A., Mingo, J. and Buckler, J.	2009				Turnaround structure: freeing up capital and liquidity.	

Glantz, M.	2009	1) the situation 1.1) correct problems that can be corrected and return the company a tradition banking relationship 1.2) maximise the potential for ultimate collection of outstandings 1.3) workout department of bank more experience solving credit probles 1.4) decision must be fast, usually without conferring with other departments (the legal dept exception) 3) eleven big questons 3.1) are day-today cash budgets positive? 3.2) will business be able to extend trade terms? 3.3) can company file for expedited tax refund to provide quick injection of cash? 3.4) can outside consultants assist - ccountant, bankers, turnaround specialists. 3.5) are there other sources of cash, e.g. guarantors, new equity	The meeting 1) review all information dealing with business 2) legal council may be present 3) define role of turnaround group and its interaction with business 4) full disclosure of relevant information and are based on realistic evaluation of the abiliites of both the borrower and workout to resolve problems 5) role clarification 6) note additional sources of cash flow generation and/or additional colateral avaialbility 7) updateand keep credit rating frequent 8) arrange engagement with bankers			

Glantz, M.	2009	3.6) is the company or any part viable, so restructuring is a viable alternative? - shareholders valuation and simulation are key 3.7) is there a plan to repay new money within reasonable time frame, and will portion of imbedded debt be repaid with it? 3.8) will new money be LIFO and senior to embedded debt (rule of thump: new money should not exceed more thn a third od embedded debt? 3.9) does business plan alternative legal moves, preventing restructuring? 3.10) if nove isn't made quickly, will decay cause partial or full dissapation os assets, actions by other creditors, or increased carrying costsw for the bank? 3.11) how should the bank treat new loans (new money)? do advances anhance collateral value?				
McCann, P., Dermer, S.W., Hunter, B.K, MacDiarmid, A., Morgan, R. Örndahl, M., Robson, K. And Wagman, F.	2009					

APPENDIX D: TURNAROUND RESEARCH SUMMARISED BY PANDIT

O'Neill (1986b)	Corporation	9 US manufacturing and 4 US service firms, mixed: 9 T/A and 4 non T/A	Published case histories from *Fortune* magazine
Pant (1991)	Corporation	137 US manufacturing firms, mixed: 64 T/A, 73 non 1/A	Public archives *(Compustat)*
Ramakrishnan & Shah (1989)	-	-	-
Reichert (1988)	Corporation	1 large US leisure corporation. T/A	Interview with CEO
Remick (1980)	Turnaround managers	-	Anecdotal
Rose (1989)	Corporation	1 UK retail firm. T/A	Anecdotal/company archives
Robbins & Pearce (1992)	Corporation	32 US textile mill product firms, T/A	Questionnaire, public/company archives
Schendel & Patton (1976)	Corporation	Mixed: 36 matched pairs of US firms from 20 four digit classes	Public archives *(Compustat)*. Secondary qualitative sources (annual reports etc.)
Schendel, Patton & Riggs (1976)	Corporation	54 US manufacturing firms, T/A	Public archives (Standard and Poor's *Compustat* computer tape)
Scherer (1989)	Literature, cases, turnaround managers	-	Interviews with 80 turnaround managers; review of 600 articles; review of 300 case studies
Seabright (1985)	Corporation	1 UK retail furniture firm, T/A	Company archives/anecdotal
Slatter (1984)	Corporation	40 UK publicly quoted firms, mixed: 30 T/A, 10 non T/A	Public archives, questionnaires
Stopford & Baden-Fuller (1990)	SBU	6 manufacturers in 4 industries matched against 4 less successful competitors and 5 equally successful competitors	Several hundred interviews
Taylor (1982/3)	-	-	Anecdotal
Main & Goldthorpe (1989a,b,1990)	Corporation	27 Canadian firms, mixed	Newspaper and investment analysts reports, questionnaires, interviews
Thietart (1988)	SBU	217 SBU's in six strategic groups	*PIMS*
Whitney (1987)	-	-	Personal experience, anecdotal
Wyman (1989)	-	-	Anecdotal
Zimmerman (1986)	Corporation	4 US manufacturing firms, mixed: 2 T/A, 1 marginal case, 1 non T/A	Public archives
Zimmerman (1989)	Corporation	15 mature US manufacturing firms, mixed: 8 T/A, 7 non T/A	Financial records, manuscripts, case histories, interviews

a E.g., sample size, successful and unsuccessful turnarounds (mixed) or just successful turnarounds (T/A).

APPENDIX E: REAL LIFE CASE EXAMPLE

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RESEARCH PROJECT:

Dear participant,

OBJECTIVE

I am conducting research in the field of business failure and rescue. The main aim of this research is to establish what behavioural and financial inferences impacts on the business. The results of the interview will be applied in the design of primary research questionnaires. Finally, all the research data will hopefully give us a better understanding of the dynamics within a business environment.

WHAT IS YOUR ROLE?

Included in this e-mail are three real life cases. They resemble typical credit applications (data from the organisation's database was used), but account conduct through a computer based enquiry is also attached. You need to study the three cases as if you were assessing a review and request for additional facilities. Please feel free to make notes, as you will be subjected to an interview where I am going to ask you to reply to and discuss various issues and some of the dynamics of the business. Reading through the case studies will take about 90 minutes; once again, I need to reiterate that you need to be well prepared for the research to come to a meaningful conclusion. The interview is estimated to take at least three to four hours. I will however contact you to make an appointment when it suits you. Your anonymity is guaranteed and no reference will be made to you is person.

THE INTERVIEW

Please bring the case studies and your notes to the interview. I will be using a Rep-grid research methodology, which requires you to answer a set of questions and to debate possible key constructs. There is no right or wrong answers and you will not be "tested" at all. I am relying on your wealth of knowledge and expertise to arrive at meaningful conclusions.

Thank you for your assistance
Gert Holtzhauzen (0833250150)

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CASE

Group:	Wilson Log Logistics (Pty) Ltd ("Wilson Log")
Authority:	
Risk Category:	
Moodies Score:	AFS 31/12/05 = 3.87 MA's 30/6/06 = 4.13
Annual Review Date:	June
M/A requirement:	Quarterly
Date :	11th July 2007

Reason for paper	Request to condone an excess on Wilson Log of up to R21.0m against a shared OD/LG limit of R36m (total excess period of 5 days) until 16/07/2007

COMMENTS

Refer to the last annual review dated 2 June 2006 (copy minute attached).

We recently experienced an excess (June 2007) of up to R25.9m for 7 days that was tabled and condoned at Credit Assessment Meeting. The latter indicated possibly looking at Debtor Discounting. The reason for the excess was as a result of historical 7-day debtors requesting an extension in terms over their financial year-end. The excess was timeously rectified.

We were now requested to condone an excess of up to R21.0m for 5 days. We were advised that they have of late experienced "over trading" from their clients in the tyre industry (Tar Stone, Tube Master – Grobler Group and Standard Tyres). The reason for the "over trading' is currently unknown although the client advised that it may be due to the shipping lines presently providing discounts.

The client has provided us with a cash flow statement that reflects that the excess will be cleared from debtor collections on/by the 16 July 2007. Debtors to be collected, amongst others, include Toyota SA, Audi and Ford SA.

The debtor book is currently R149.3m and the client continues to insure through Lourens.

We are in receipt of the 31.12.2006 annual audited financial statements and a meeting (including ACM and ASM) has been set-up with the client for Monday (16 July 2007) to discuss the levels of excesses experienced and determines their needs going forward. If need be, we will develop the Debtor Discounting scenario. This matter will be clarified in our review.

In view of the client having conducted a satisfactory account since 1997, comfort in quality and quantum of debtors and short-term nature, request that the excess be condoned. The annual review is to be submitted to Credit assessment meeting as a matter of priority.

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FAMILY TREE

FACILITIES: Borrower (s) Name	**Type of Facility**	**Present Limit**	**Proposed Limit**	**Outstanding @ 10/07/07**	**Rate**
A. Lucrative Bank :					
Bank Facilities					
1. Wilson Log Logistics (Pty) Ltd					
	O/D#	36,000,000	36,000,000	17,547,325 Dt	Prime
	O/D	'1'	'1'	20,171 Cr	Prime
	O/D	'1'	'1'	41,464 Dt	Prime
	L/G	'1'	'1'	2,330,750 Dt	R 0.69%
	Call	-	-	46,444 Cr	Prime
	CFC $	-	-	621,600 Cr	
	CFC	-	-	465 Dt	
	FEC @ 10%	250,000	250,000	Nil	
2. 90 Degree Super Supply Solutions (Pty) Ltd	C/A	NCA	NCA	82,532 Cr	Max
3. KL Malherbe Family Trust	C/A	NCA	NCA	9,756 Cr	Max
4. San Micheal A Tommi Importers P/L	C/A	NCA	NCA	71 Cr	Max
Sub Total Bank Facilities:		**36,250,000**	**36,250,000**	**19 920 005 Dt 780 574 Cr**	
Asset Based Facilities					
5. Wilson Log Logistics P/L	RCL	7,500,000 (a)	7,500,000	5,305,370 Dt	P-1%
	MTL	2,578,075 (b)	2,487,902	2,487,902 Dt	P+1%
	S/P	504,865 (c)	477,687	477,687 Dt	P+1%
	S/P	231,125	222,255	222,255 Dt	
	fleetfac**	35,000	35,000	26,499 Dt	
Sub Total Asset Based Facilities:		**10,849,065**	**10,722,844**	**8,519,713 Dt**	
Total		**47,099 065**	**46,972,844**	**28 439 718 Dt 780 574 Cr**	
Other Facilities:					
6. Lotglove Investments 8 P/L	Homeloan	2,176,211	2,175,127	1,621,595 Dt	P-2, 15%
Sub Total Other Facilities:		**2,176,211**	**2,175,127**	**1,621,595 Dt**	
B. **Other Lucrative Bank Group:**					
7. Wilson Log Logistics P/L	***ACB***	***Daily limit*** (6,000,000)	***Daily limit*** (6,000,000)		
TOTAL Lucrative Bank GROUP		**49,275,276**	**49,147,971**	**30 061 313 Dt 780 574 Cr**	

Notes:
Condone temporary excess of up to R57.0 m until 16/07/2007.

<u>SECURITY</u>: **A/V**

A. <u>Lucrative Bank</u>:

<u>Bank Facilities:</u>

1. Wilson Log Logistics (Pty) Ltd
   - "U" suretyships+ L/F by: K L Malherbe
     J Malherbe — 67 660 433
   - Cession of debtors per 30/06/2007 after exclusions R135,320,866 @ 50%
   - Cession of Lourens's Credit Ins pol No. CB0407223A covering debtors
   - Cession of MomLife pol No. 90393983 (D/V R 1,2 m) on life of Jl Malherbe
   - Cession of Mom Life pol No. 90393977 (D/V R 1,2 m) on life of J Malherbe
   - Cession of Safesure policy no.013076296 (DV R5 M) on the life of Jl Malherbe
   - Cession of Safesure pol No.013076518 (DV R5, 513 M) on the life of J Malherbe

Tangible security held for bank facilities **67 660 433**

<u>Asset Based Facilities:</u>

4. **<u>Wilson Log Logistics (Pty) Ltd:</u>** As per (1) above.

Tangible security held for ABF facilities

SECURITY FOR LUCRATIVE BANK FACILITIES CHECKED AGAINST SECURITIES REGISTER on 11/07/07 by:

N Pete

<u>Other Facilities:</u>

6. **<u>Lotglove Investments 8 P/L</u>**
   - 1st & 2nd CCMB's totalling R2, 4M over Erf 38 Featherbeach Est F/V 6/03 R2, 4M @ 80% — 1,920,000
   - Cession of HOC (Held at CHL)
   - Unlimited suretyship + L/F by JL Malherbe
   - J Malherbe

Tangible security held for other facilities **1,920,000**

B. <u>Other Lucrative Bank Group:</u>

<u>OTHER BANKS:</u> (including security held)

- R22 Million L/G facility at Lourens's – secured by personal sureties and reversionary cession of Debtors.
- Customs & Excise: deferred facility of up to 75% of monthly T/O.
- Personal banking is at CashCow bank where O/D facility is R50K

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APPLICATION FOR FACILITIES

Date Prepared: 2nd June 2006	**Authority:**
Applicant: Wilson Log Logistics (Pty) Ltd ("Wilson Log") **Group #:**	**Relationship:** **Region:**

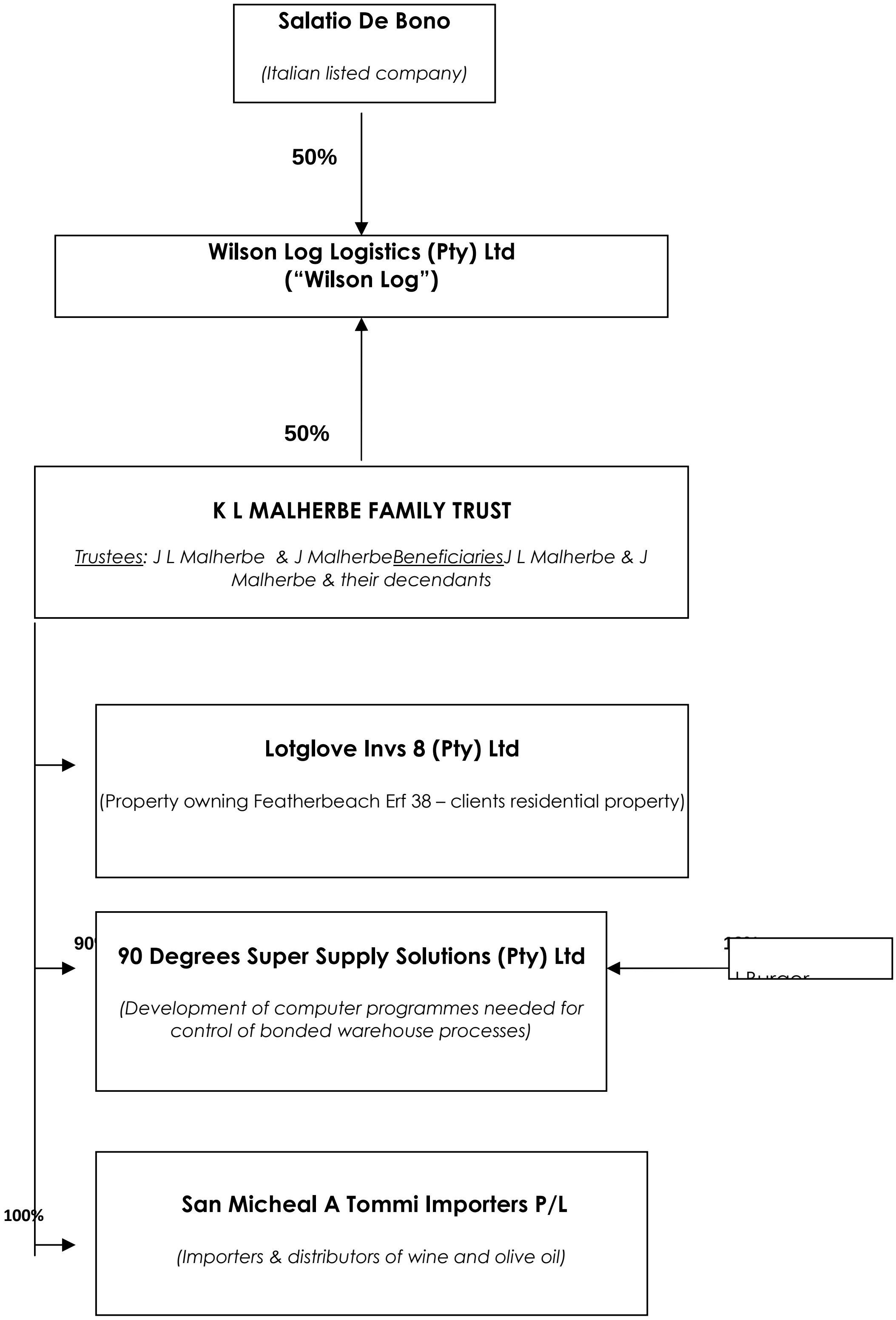
Review: March annually
Management A/c's: Quarterly

Background:	**Ownership/management:**
Risk Category: With Security D **Without Security** E *Manage as "C"*	Directors: J L Malherbe J Malherbe
FAST Financial Risk Score 3.87	Financial Manager: Walter Coats
Basel Rating NGR14	
Cash Management Category: N/A	
Account Opened: 21/5/1997	Family Tree attached
Nature of Business: Forwarding, Clearing, Warehousing + Distribution in all aspects.	
code: 4150	
GOI: **R825 246**	**Auditors:** B & E Auditors

Attachments :		Yes	No		Yes	No
Family Tree		X		Technical Committee Approval		X
Financials	Date			CFP seen minute	X	
- Annual:	31/12/2005	X		ITC Clear	X	
- Interim:	31/3/2006	X		Facility Letter: May 2005	X	
- Other:	Budget 12/06	X		Review Fee: R15,000	X	

Purpose and Details of Application:
1. Annual Review of facilities against AFS per 31/12/2005 and M/A's per 31/3/06.
2. Applications for:
   - ❖ Increase in O/D limit from R25M to R36M;
   - ❖ L/G's outstanding of R3,295,750 to be a 'stand alone' arrangement (ie no longer sharing with O/D);
   - ❖ 36 month loan of R3.5m to cover the cost of the upgrade and adaptation of new rented premises;
   - ❖ S/P R1m for additional racking and shelving in the new rented premises.
3. To record Fleet facility arrangement in place of R15,000.

FAMILY TREE AS AT MAY 2006



3.					
4.					
5.					

Notes:

1. L/G's are in favour of Customs & Excise. FEC's: Client is on Treasury, and also enjoys Direct Dealing.

SECURITY: **A/V**

A. Lucrative Bank:

Bank Facilities:

1. Wilson Log Logistics (Pty) Ltd

→ "U" G'tee + L/F by: K L Malherbe
J Malherbe
Cession of debtors per 30/4/2006 R83,067,723 @ 40% for insured debtors and 25-to-33% for uninsured debtors — 28,624,210

→ Cession of Lourens Credit Ins pol No. CB0407223A covering debtors
→ Cession of MomLife pol No. 90393983 (D/V R 1,2 m) on life of J L Malherbe
→ Cession of MomLife pol No. 90393977 (D/V R 1,2 m) on life of J Malherbe
→ Cession of Old Mutual pol No.013076296 (DV R5M) on the life of J L Malherbe
→ Cession of Old Mutual pol No.013076518 (DV R5,5M) on the life of J Malherbe

Tangible security held for bank facilities — **28,624,210**

Asset Based Facilities:

4. **Wilson Log Logistics (Pty) Ltd:** As per (1) above.

Tangible security held for ABF facilities

SECURITY FOR LUCRATIVE BANK FACILITIES CHECKED AGAINST SECURITIES REGISTER on 05/04/06 by:

Other Facilities:

6. L**otglove Investments 8 P/L**

→ 1st & 2nd CCMB's totalling R2,4M over Erf 37 Featherbeach Est F/V 6/03 R2,4M @ 80% 1,920,000
→ Cession of HOC (Held at CHL)
→ Unlimited G'tee + L/F by J L Malherbe
→ J Malherbe

Tangible security held for other facilities **1,920,000**

C. Other Lucrative Bank Group:

OTHER BANKS: (including security held)

- R22Million L/G facility at Lourens's – secured by personal sureties and reversionary cession of Debtors.
- Customs & Excise: deferred facility of up to 75% of monthly T/O.

TERM FACILITIES REVIEW: **Requirement:** **COVENANTS:**	**Actual Per 31/12/05**	**Terms and Conditions**
• ***Debtors***	R41,533,861	Debtors @ 40% to cover O/D at all times. We propose this covenant be increased to 50%.
• ***Dividend payments***	Nil paid	May be paid if gearing remains within our required covenant.
• ***Gearing ratio***	4.55	Not more than 3
• ***Interest coverage***	8	Not less than 5

Have there been any events of default or breaches of covenants in the year under review?	***YES***

If YES, supply particulars:

Gearing covenant exceeded. See main body of comments.

EXCHANGE CONTROL APPROVAL

- Bank - Branch - Expiry Date - Total Approval	**N/A**

BORROWING POWERS

Limited:	NO	If YES, supply particulars	N/A

POWER TO ISSUE GUARANTEES?	YES

ASSET BASED FINANCING	B/A Funding Approved	NO

1. **Application**

New	Inc	Review	Other	Rate
	X	X		

2. **Facilities**

	Limit (Net)	Change from Last approval
a) **Special Projects :**		
• Wilson Log Logistics (Pty) Ltd	1 000 000	+1 000 000
b) **RCL**		
• Wilson Log Logistics (Pty) Ltd	3 500 000	Nil
c) **Other : MTL**	3 500 000	+3 500 000
	8 000 000	**+4 500 000**

3. **Details of Facilities**

	New	New	Existing
Type :	MTL	S/P	RCL
Merchandise :	Renovation of premises	Shelving	Veh & Equip
Supplier :	N/A	Approved	Approved
Product :	MTL	I/S	I/S
Period :	36 mnths	24 months	24 to 36 mths
Payment :	D/O	Debit Order VAT back mnth 4	Debit Order

4. **Terms and Conditions**

a. **Security** -See page 4

b. **Special Conditions for RCL:** D/O, Insurance, max period for computer eqt 24 months with a 20% deposit and VAT Back, equipment maximum period 36 months, VAT Back and deposit negotiable, new vehicles up to 60 months.

5. **Revolving Credit Lines**

a. **All ABF on balance sheet with Lucrative Bank? YES**

6. **General**

a. Technical Managers' approval regarding price and supplier required for all used merchandise (other than Cars and LDV's) where cost price in excess of R500,000.

b. Facilities are automatically cancelled on EXPIRY DATE

BACKGROUND:

Wilson Log Logistics (Pty) Ltd:
The company was established in 1995, and is a South African based third party logistics provider, operating though a network of more than 140 offices worldwide.
Ownership of the company is held equally between local management members and a listed Italian company, Salatio de Bono (more information below).
Wilson Log obtained the SABS and ISO 9002 in 1997.
Its major competitors are Koeglen & Nadel, ABC Freight, and Roos & Liebenberg.
The business operates out of leased premises in Eersterus, Johannesburg, very close to Jhb International Airport. In July the clients will be moving to new rented premises near Edenglen as additional warehousing and office space is required. They have signed a 10-year lease with the landlord and a performance guarantee was issued by Lourens.

To recap on the company's services, they include: -

- Collection – Wilson Log takes control of the consignment throughout the logistics chain, from the supplier to the recipient.
- Expediting and Forwarding (import/export) – Wilson Log has an advanced computer tracking system that can be viewed on-line 24 hours a day. They also handle all documentation.
- Customs Clearance
- Warehousing (bond and free) management – Wilson Log control the inventory in both their bonded and non-bonded warehouses by bar coding and scanning all consignments received. This enables goods to be tracked and traced at any stage in the process. The company also has special clearance from the SARS to trade in bonded stock upon demand on a weekly basis, while completing customs requirements.
- Local Distribution to main hub centres – The company delivers imports to the client if required, i.e. in the 3 major centres, viz. Johannesburg, Cape Town and Durban. Deliveries outside of these regions are sub-contracted out.
- Exports into Africa.

Wilson Log has over some five years developed a highly efficient computerised record keeping system for bonded warehousing, which allows clients to "patch" into the Customs computer system to download information & records – Customs has approved this system. This is carried as an intangible asset in the balance sheet. Currently income from this computer system is R300.000 pm from Wilson Log's clients.
This system also gives Wilson Log a serious competitive edge in terms of having a close co-operation with Customs and Excise fully to its clients' benefit.

Wilson Log's staff compliment stands at 211.

Salatio De Bono ("SDB"):
In existence for longer than 100 years. One of the leading Italian international freight forwarders. The company has offices throughout the world and is listed on the New York stock exchange.
The benefits gained by Wilson Log in partnering up with SDB are immeasurable, and make it a force to be reckoned with.
SDB acquired a 20% share in Wilson Log in May 2000 for US$250 000, and a further 15% in 2001 for US$125 000. In Jan 2002 another 15% share was acquired for US$125 000.

The CEO of Salatio De Bono was looking for a good investment in his private capacity, and he invested R4M in Wilson Log in April 2005. The loan is unsecured and bears interests at 9.5% pa repayable in 20 half yearly instalments commencing October 2005. The Excon for this loan was attended to by ourselves.

FINANCIAL POSITION:

Wilson Log Logistics (PTY) LTD:

Audited AFS per 31/12/2005 :

- Wilson Log performed well in terms of turnover growth and profits achieved. A T/O growth (including customs & excise duty T/O) of 42,6% was budgeted (to R900M), but actual achievement was a 50,55% growth (to R950M). The reasons for this growth are: as key customers (viz Toyota SA, Audi, Ford, Tar Stone, Tube Master, Grobler Group and Standard Tyres) grow, there is automatic growth for Wilson Log, and new meaningful business acquisitions were made of Ford and Pick 'n Mix. Exceptionally positive economic conditions for importers was another major contributing factor to additional business, and we are well aware that the motor industry experienced good growth. Wilson Log is fast becoming the preferred provider of logistics solutions to the motor industry in SA, and it has 4 of the top 10 tyre companies worldwide on its books. Wilson Log now has at least 185 solid debtors.
- Typically all NPAT was retained in the business to fund growth. No dividend has been paid in the 5 years on record as it is not client's policy to pay dividends whilst the business is in the growth phase. They do however take a management bonus for all shareholders, which for the year under review amounted to R1,522M.
- Capital base strong at R25M.
- Trade creditors figure [mainly monies owed to Customs & Excise] was very high at year-end. Client had received VAT and duties from customers and deposited R17m on call before year-end, but only paid Customs & Excise in January 2006. This had a detrimental effect on the gearing, which if adjusted by the amount of cash on hand, reduces to 3.6. This exceeds our covenant of 3, but is still better than the industry norm of about 5. We can see that a 6 day delay by

debtors in paying also played its part in th[illegible] contributed to a negative cash flow of R1,95M over the year end. Given that timing issues negatively affected gearing and cash flow, we recommend that the gearing covenant non-compliance situation be accepted. Subsequent MA's @ 31/3/06 show an improvement in the gearing ratio to 3.13. This is partly the result of new loans from directors of R3,334M (accumulated from own resources and management fee being charged to Wilson Log by shareholders SDB and the Malherbes).

- Lourens insurance has covered R4,36m of the R13,2M owed by Maxi Footwear. The shortfall has not been written off as recovery is expected because our clients hold personal sureties by all directors of Maxi and title deeds to various properties, albeit Maxi seem to have overstated the property value and our client did not attend to the registration of the bonds over these properties. The Maxi debt is not reflected in the debtors list used by us. It should also be remembered that the cash flow implication of the Maxi debt has already been absorbed by Wilson Log, although there will still be the negative effect on the financial statements (ie P&L and Cash Flow Report) should the Maxi amount owed ultimately become a bad debt.

Projections 12 months to 31/12/06:

Clients have budgetted to break the Billion Rand mark at R1,027,923,884 and to achieve a 1,3% NPBT (this is all based on the T/O inclusive of Customs Duty & VAT). This profit performance is slightly better than the previous years 0,87% because of new business providing better client mix opportunities, an admin fee that has been implemented of R350 per vehicle for clearing out of customs, which amounts to additional income of R600,000 per month, and economies of scale.

The budgeted growth is based on:
- contracts already signed (Ford and Toyota have signed contracts for use of the Customs & Excise clearing computer system, Toyota has signed a forwarding contract from both Europe and Japan, and Phiat Air Imports [Parts & accessories] and 'Clouds of Living' have committed to contracts).
- new business in the pipeline. Negotiations are underway currently with GM/Delta, Toyota, VW, and Citroen. The country-wide warehousing & distribution contract for Yokohama is in the final stages of negotiation.

The focus is in five areas and Wilson Log would like to be known as the specialist/expert in these areas. They are:
- Automobiles
- Automotive Parts
- Footwear
- Light industry and
- Trade i.e. Shoprite Checkers.

The budgeted increase in T/O has already been achieved in terms of committed contracts, and the budgets will be exceeded by the end of the financial year.

Due to the strong rand clients are finding it difficult to break into the export market. Approximately 23% of the turnover consisted of the Toyota exports into Africa that contributed to the year on year growth in gross profit despite the decline in turnover. Strategically it is important to diversify therefore there is a specific drive to focus on this sector of the market.

A breakdown of T/O by division shows the following:

	3 months in 2006 % of Total T/O	**2005 % of Total T/O**
Imports	(49.32%)	(52.56%)
Exports	(0.83%)	(1.37%)
WH & Dist.	(4.40%)	(4.37%)
CRS & Bond	(45.46%)	(41.70%)

SECURITY:

Approximately 50% of the debtor's book is insured by Lourens's, and as the debtor's book is our primary security we expand on the salient features of this insurance as follows:
- The policy is on aggregate loss basis, ie the first R500,000 of bad debt within a calendar year is for Wilson Log's account. Any amount over and above that will be covered in terms of the policy. This allows the premium to be reduced and historically the customer has not had bad debts, making this option favourable.
- Debtors with payment terms of less than 7 days are excluded from the cover. This includes: Michelin, Peugeot, Pirelli, Renault. This amount is revolving so a similar amount is outstanding at any one time.
- 85% of the credit limit allocated per customer will be paid on default of the debtor. Therefore, 15% is for Wilson Log's account (Vat is excluded).
- Wilson Log has a limit mandate i.r.o. its credit control process and can grant discretionary limits on behalf of Lourens up to R200,000 per customer.
- However, any debtor below R50,000 is not covered, unless it is a timing difference and payment was already received.
- Lourens's maximum liability in one year is R15 Million.
- Nichѐ International Brokers (Pty) Ltd to provide a monthly analysis of Wilson Log's debtors per insured/not insured.
- We have also had the book assessed by Lucrative Debtor Discounting that found the book acceptable.
- In arriving at our AV on debtors we have been using the following calculation based on what is insured and not insured. Debtors per 30/4/06:

	Drs List Date				y limit R25,000,000
Debtors Value Total book	**30/04/2006**	**83,067,723.00**			
Credit balances		(47,635.00)	-	R	-
Excluded by ourselves			-	R	-
No Lourens Cover		1,177,513.00	33%	R	392,112
<R50K own discr - no cover		1,502,093.00	33%	R	500,197
7 day a/c - no cover		23,844,550.00	25%	R	5,961,138
Insufficient Cover		12,921,133.00	33%	R	4,302,737
Sufficient Cover		15,860,000.00	40%	R	6,344,000
Sufficient Cover		27,810,067.00	40%	R	11,124,027
		83,067,721.00			
DEBTORS COVER AVAILABLE				**R**	**28,624,210**

We however propose increasing the debtors covenant to 50% overall, provided that the monthly Niche analysis continues to confirm that at least 50% of the debtors are insured. Our recommendation is also based on the 7 day debtor situation (+28% of the above book) which per above analysis is made up mostly of Michelin Tyre Co, Peugeot Motors, Yokohama SA and Italian Tyre Co. These debtors "roll" on a 7 day basis, ie they are re-created every 7 days.

We do not hold PPS's for the Malherbes who advise that they do not have assets outside of the group as we know it.

We have viewed the financial statements of the K L Malherbe Family Trust. Only assets are the shares in Wilson Log and 90 Degree Supper Supply Solutions (computer software company), and the residential property under home loan.

Client is averse to signing any further security, and is not willing to provide the guarantee of the Family Trust or further life cover.

NEEDS:

The O/D is used to make the monthly payment to Customs + Excise, pending inflow of debtors over the first week of the month.
Wilson Log optimises cash flow by managing payment terms mix from debtors by giving COD, 7,14, 30, 45 and 60 day terms. The split overall is between 62 to 75% less than 30 days, and the balance more than 30 days.
Custom & Excise allow Wilson Log 30 day payment terms (payment 7 days from statement), and the full balance owing to Customs & Excise as at 21st each month must be settled in full.
At present, on average clients are paying Customs & Excise R40 M pm (increase from R30 M per our last annual review), and this growth is the reason for the request for the higher O/D limit.

The Letters of Guarantee are in favour of Customs & Excise in respect of the R17 M deferment facility (allowing terms on amounts owing) – Lourens has issued the balance of the L/G's for this facility.
We request that this L/G arrangement be viewed as a separate stand alone limit.

Medium Term loan: to upgrading of the new warehouse and office facility. A budget of R1.5m has been allowed by the developer for the standard fixtures, but our client would like to enhance their working area and environment.

S/P: for warehouse shelving and racking, as the new premises is larger and clients need more storage space in terms of growth. This will be done over 24 months with VAT back.
This is requested over and above existing RCL limit as there will be further needs in terms of the new premises and rapidly growing business.

RECOMMENDATION:

We recommend continuation of arrangements, and the increases proposed on the security basis proposed.
The business continues to grow profitably, to manage cash flow resources carefully and maintain an acceptable financial structure;
The company has achieved a strong position and good name in its market, and is dealing with good names in the business world;
The management of the business is very closely involved in the day to day running of all respects, is dynamic, passionate and very capable. Strong emphasis is put on understanding the financial implications of every aspect of the business, planning and budgeting;
We can depend on client to use the O/D in a responsible way – ie short term spikes to fund monthly C & E payments, then running down significantly;
The benefits of the larger premises and the growth of the business will support the requested MTL and S/P requests which the business can service without a problem.

Financial performance for 2005 was very close to forecasts and reflects a sound position with some improvement y-o-y.

Level of facilities requested is not out of line, and [illegible] during this period, the growth expected this year (already manifesting itself), level of security by way of debtor book, and limited use of facilities (i.e. no hardcore position), the application carries my support.
Review fee must however be negotiated upwards.

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YUNIBESITHI YA PRETORIA

Detailed Balance Sheet
WILSON LOG LOGISTICS (P/L) (150)
Industry Classification: SIC Code:
Amounts Printed in: Thousands

Prepared: 06:29, 06/06/2006
Page 1
ESM Version K

Statement Date	31/12/2002	31/12/2003	31/12/2004	31/12/2005	31/03/2006
No. of Months	12	12	12	12	3
Audit Method	Unqualif'd	Unqualif'd	Unqualif'd	Unqualif'd	CO.PRE...
Prepared By				S Bezuid...	S Bezuid...
Accountant				BDO Spe...	BDO Spe...
Source Currency: Target Currency:					
Exchange Rate	-	-	-	-	-
FIXED AND NON-CURRENT ASSETS					
Plant & Equipment	1,350	1,397	1,984	2,901	2,901
Cell phones/Office Equip & Computers	2,008	3,542	5,500	6,696	2,907
Delivery Vehicles	2,057	2,744	3,271	6,694	6,694
Furniture & Fittings	639	892	1,042	1,304	-
Total Gross Fixed Assets	6,054	8,575	11,797	17,595	12,502
Accumulated Depreciation (-)	2,106	3,625	5,776	8,219	1,886
Total Net Fixed Assets	3,948	4,950	6,021	9,376	10,616
Intang- purch software	3,901	3,545	-	-	-
Intang- Internal Software	-	3,163	3,936	5,291	5,291
Leasehold Improvements	705	1,008	1,585	3,080	3,080
less: Accumulated Amort S/W	2,212	2,820	1,477	1,879	2,281
less: Accumulated Amort Leasehold	-	-	193	595	997
Total Net Intangible Assets	2,394	4,896	3,851	5,897	5,093
Deposit: Office Rent	-	-	-	-	635
Total Fixed and Non-Current Assets	6,342	9,846	9,872	15,273	16,344
CURRENT ASSETS					
Cash	5,089	3,780	21,476	17,759	128
Trade Debtors	30,183	34,874	60,795	78,246	89,415
Liquid Assets	35,272	38,654	82,271	96,005	89,543
Prepayments	-	-	-	-	4,680
Directors Loans	-	-	-	110	-
Suspense Acc	-	-	-	-	472
Total Current Assets	35,272	38,654	82,271	96,115	94,695
CURRENT LIABILITIES					
Overdrafts	-	-	-	-	33,510
Current Portion - Long Term Debt	1,451	1,389	1,371	2,685	-
Trade Creditors	27,387	28,821	60,280	71,805	35,291
Accruals	-	-	4,540	3,492	-
Income Taxes Payable	2,269	2,776	4,138	913	-
Vat Payable	-	-	669	515	328
Other Current Liabilities: Provisions	-	-	-	-	1,748
Total Current Liabilities	31,107	32,986	70,998	79,410	70,877
Net Current Assets / Working Capital	4,165	5,668	11,273	16,705	23,818
Total Assets less Current Liabilities	10,507	15,514	21,145	31,978	40,162
NON-CURRENT LIABILITIES					
Loans > 1 year - Secured	1,429	745	1,255	2,007	5,767
Loans > 1 year - Unsecured	-	-	-	3,626	3,626
Ceded Loans: Directors	-	-	182	-	3,334
Deferred Tax	-	455	523	1,431	-
Total Non-Current Liabilities	1,429	1,200	1,960	7,064	12,727
EQUITY					
Share Premium	1,554	3,868	3,868	3,868	3,868
Retained Earnings	7,524	10,446	15,317	21,046	23,567
Total Equity	9,078	14,314	19,185	24,914	27,435
Total Equity and Creditors > 1 Year	10,507	15,514	21,145	31,978	40,162
Tangible Net Worth	6,684	9,418	15,334	19,017	22,342

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Detailed Profit & Loss Account
WILSON LOG LOGISTICS (P/L) (150)
Industry Classification: SIC Code:
Amounts Printed in: Thousands

Prepared: 06:29, 06/06/2006
Page 2
ESM Version K

Statement Date	31/12/2002	31/12/2003	31/12/2004	31/12/2005	31/03/2006
No. of Months	12	12	12	12	3
Audit Method	Unqualif'd	Unqualif'd	Unqualif'd	Unqualif'd	CO.PRE...
Prepared By				S Bezuid...	S Bezuid...
Accountant				BDO Spe...	BDO Spe...
Source Currency: Target Currency:					
Exchange Rate	-	-	-	-	-
Turnover	69,931	107,948	164,731	202,570	55,860
COGS	43,302	74,268	118,872	144,847	40,079
Gross Profit (Loss)	26,629	33,680	45,859	57,723	15,781
Salaries & Wages	9,890	13,897	16,653	21,443	5,734
Administrative Expenses	8,028	10,172	13,851	18,043	5,187
Consulting&Mgt Fee (SDB)	1,393	1,561	1,678	2,222	952
Directors' Remuneration	519	447	1,048	1,081	215
Officers Compensation -Incentive Bonus	-	-	1,200	1,522	-
Bad Debt Expenses	-	220	125	268	39
Social Responsibility Pts	-	562	949	690	-
Customs Duty + VAT Recon	151,332	267,594	466,719	748,274	189,455
Custom Duty + VAT Paid	(151,332)	(267,594)	(466,719)	(748,274)	(189,455)
Depreciation	1,801	1,521	2,004	2,845	949
Amortisation	-	608	716	402	-
Total Operating Expenses	21,631	28,988	38,224	48,516	13,076
Operating Profit & (Loss)	4,998	4,692	7,635	9,207	2,705
Gain(Loss) on Disposals	181	-	-	-	25
Interest Received	55	377	587	294	477
Interest Paid: LT Loans	210	286	218	686	414
Interest Expense OD-Financial Inst.	263	297	685	454	272
Other Income(Expenses)	23	-	88	-	-
Net Profit(Loss) before Taxation	4,784	4,486	7,407	8,361	2,521
Current Taxation	1,072	1,564	2,672	2,632	-
Net Profit(Loss)	3,712	2,922	4,735	5,729	2,521
Change in Accounting Policy	-	-	136	-	-
Transferred to Retained Earnings	3,712	2,922	4,871	5,729	2,521

Reconciliations
WILSON LOG (P/L) (150)
Industry Classification: SIC Code:
Amounts Printed in: Thousands

Statement Date	31/12/2002	31/12/2003	31/12/2004	31/12/2005	31/03/2006
No. of Months	12	12	12	12	3
Audit Method	Unqualif'd	Unqualif'd	Unqualif'd	Unqualif'd	CO.PREP'D
Prepared By				S Bezuide...	S Bezuide...
Source Currency: Target Currency:					
Exchange Rate	-	-	-	-	-
RECONCILIATION OF REVENUE RESERVES					
BEGINNING RETAINED EARNINGS		7,524	10,446	15,317	21,046
Adjustments to Retained Earnings		-	136	-	-
Beginning Retained Earnings, Restated		-	10,582	-	-
Net Profit(Loss)		2,922	4,735	5,729	2,521
Ending Retained Earnings		10,446	15,317	21,046	23,567
RECONCILIATION OF EQUITY					
BEGINNING CAPITAL AND RESERVES		9,078	14,314	19,185	24,914
Net Profit(Loss)		2,922	4,735	5,729	2,521
Adjustment to Profit & Loss Account (above)		-	136	-	-
Increase(Decrease) in:-					
Ordinary Shares		2,314	-	-	-
Actual Ending Capital & Reserves		14,314	19,185	24,914	27,435
Increase(Decrease) in Capital & Reserves		5,236	4,871	5,729	2,521
RECONCILIATION OF WORKING CAPITAL					
BEGINNING WORKING CAPITAL		4,165	5,668	11,273	16,705
Total Net Fixed Assets		(1,002)	(1,071)	(3,355)	(1,240)
Total Net Intangibles		(2,502)	1,045	(2,046)	804
Other Operating Non-Current Assets		-	-	-	(635)
Increase (Decrease) in Non-Current Liabs:-					
Loans > 1 year		(684)	510	4,378	3,760
Subordinated Debt		-	182	(182)	3,334
Deferred Tax		455	68	908	(1,431)
Increase(Decrease) in Capital & Reserves		5,236	4,871	5,729	2,521
Ending Working Capital		5,668	11,273	16,705	23,818

Ratios
WILSON LOG LOGISTICS (P/L) (150)
Industry Classification: SIC Code:
Amounts Printed in: Thousands

Prepared: 06:29, 06/06/2006

ESM Version K

Statement Date	31/12/2002	31/12/2003	31/12/2004	31/12/2005	31/03/2006
No. of Months	12	12	12	12	3
Audit Method	Unqualif'd	Unqualif'd	Unqualif'd	Unqualif'd	CO.PRE...
Prepared By				S Bezuid...	S Bezuid...
Source Currency: Target Currency:					
Exchange Rate	-	-	-	-	-
OPERATING PERFORMANCE					
Annual Turnover Growth (%)		54.36	52.60	22.97	10.30
Gross Profit Margin (%)	38.08	31.20	27.84	28.50	28.25
Operating Expenses/Turnover (%)	30.93	26.85	23.20	23.95	23.41
Net Operating Profit/Turnover (%)	7.15	4.35	4.63	4.55	4.84
Net Profit before Tax/Turnover (%)	6.84	4.16	4.50	4.13	4.51
Net Profit before Tax/Equity (%)	52.70	31.34	38.61	33.56	36.76
Net Profit before Tax/Total Assets (%)	11.50	9.25	8.04	7.51	9.08
Net Profit before Tax/Total Net Assets (%)	45.53	28.92	35.03	26.15	25.11
Operating Leverage (%)	33.31	28.07	24.33	25.09	24.60
OPERATING EFFICIENCY					
Net Turnover to Total Assets	1.68	2.23	1.79	1.82	2.01
Trade Debtor Days (Net)	157.54	117.92	134.71	140.99	146.06
Stock Days	-	-	-	-	-
Trade Creditor Days	230.85	141.64	185.09	180.94	80.35
Net Turnover to Net Fixed Assets	17.71	21.81	27.36	21.61	21.05
DEBT SERVICE COVERAGE					
UCA Cash Flow Coverage		1.69	9.03	0.15	(77.07)
FRS1 Cash Coverage		1.81	9.02	1.40	(75.00)
Funds Flow Coverage	3.80	3.64	5.44	3.34	N/A
EBIT/Interest	11.11	8.69	9.20	8.33	4.67
Earnings Coverage	3.11	2.86	3.68	2.64	6.06
LIQUIDITY					
Working Capital	4,165	5,668	11,273	16,705	23,818
Current	1.13	1.17	1.16	1.21	1.34
Quick	1.13	1.17	1.16	1.21	1.34
Acid Test Ratio	1.13	1.17	1.16	1.21	1.26
Turnover/Working Capital	16.79	19.05	14.61	12.13	9.38
CAPITAL STRUCTURE					
Total Gearing	4.87	3.63	4.76	4.55	3.74
Adjusted Gearing	4.87	3.63	4.69	4.55	3.13
Off Balance Sheet Gearing	4.87	3.63	4.76	4.55	3.74
Sustainable Growth Rate	109.82	38.69	42.01	39.92	75.64

Detailed UCA Cash Flow Statement
WILSON LOG LOGISTICS (P/L) (150)
Industry Classification: SIC Code:
Amounts Printed in: Thousands

Prepared: 06:29, 06/06
P
ESM Vers

Statement Date	31/12/2002	31/12/2003	31/12/2004	31/12/2005	31/03/2006
No. of Months	12	12	12	12	3
Audit Method	Unqualif'd	Unqualif'd	Unqualif'd	Unqualif'd	CO.PREP'D
Prepared By				S Bezuiden...	S Bezuiden...
Source Currency: Target Currency:					
Exchange Rate	-	-	-	-	-
Turnover		107,948	164,731	202,570	55,860
Chg in Trade Debtors		(4,691)	(25,921)	(17,451)	(11,169)
Cash Collected from Turnover		103,257	138,810	185,119	44,691
COGS		(74,268)	(118,872)	(144,847)	(40,079)
Chg in Trade Creditors		1,434	31,459	11,525	(36,514)
Cash Paid to Suppliers		(72,834)	(87,413)	(133,322)	(76,593)
CASH FROM TRADING ACTIVITIES		30,423	51,397	51,797	(31,902)
Salaries & Wages		(13,897)	(16,653)	(21,443)	(5,734)
Administrative Expenses		(10,172)	(13,851)	(18,043)	(5,187)
Consulting&Mgt Fee (SDB)		(1,561)	(1,678)	(2,222)	(952)
Directors' Remuneration		(447)	(1,048)	(1,081)	(215)
Officers Compensation -Incentive Bonus		-	(1,200)	(1,522)	-
Bad Debt Expenses		(220)	(125)	(268)	(39)
Social Responsibility Pts		(562)	(949)	(690)	-
Chg in Prepayments		-	-	-	(4,680)
Chg in Accruals		-	4,540	(1,048)	(3,492)
Cash Paid for Operating Expenses		(26,859)	(30,964)	(46,317)	(20,299)
CASH AFTER OPERATIONS		3,564	20,433	5,480	(52,201)
Interest Received		377	587	294	477
Other Income(Expenses)		-	88	-	-
Total Other Income(Expense)		377	675	294	477
Chg in Directors Loans		-	-	(110)	110
Chg in Suspense Acc		-	-	-	(472)
Chg in Other Current Liabilities: Provisions		-	-	-	1,748
Chg in Other Assets/Liabilities		-	-	(110)	1,386
Current Taxation		(1,564)	(2,672)	(2,632)	-
Chg in Income Taxes Payable		507	1,362	(3,225)	(913)
Chg in Vat Payable		-	669	(154)	(187)
Chg in Deferred Tax		455	68	908	(1,431)
Cash Paid for Taxation		(602)	(573)	(5,103)	(2,531)
NET CASH AFTER OPERATIONS		3,339	20,535	561	(52,869)
Interest Paid: LT Loans		(286)	(218)	(686)	(414)
Interest Expense OD-Financial Inst.		(297)	(685)	(454)	(272)
Cash Paid for Interest & Dividends		(583)	(903)	(1,140)	(686)
NET CASH INCOME		2,756	19,632	(579)	(53,555)
Current Portion - Long Term Debt		(1,451)	(1,389)	(1,371)	(671)
CASH AFTER DEBT AMORTISATION		1,305	18,243	(1,950)	(54,226)
Chg in Plant & Equipment		(47)	(587)	(917)	-
Chg in Cell phones/Office Equip & Computers		(1,534)	(1,958)	(1,196)	3,789
Chg in Delivery Vehicles		(687)	(527)	(3,423)	-
Chg in Furniture & Fittings		(253)	(150)	(262)	1,304
Chg in Accumulated Depreciation (-)		1,519	2,151	2,443	(6,333)
Customs Duty + VAT Recon		(267,594)	(466,719)	(748,274)	(189,455)
Custom Duty + VAT Paid		267,594	466,719	748,274	189,455
Depreciation		(1,521)	(2,004)	(2,845)	(949)
Gain(Loss) on Disposals		-	-	-	25
Chg in Net Fixed Assets		(2,523)	(3,075)	(6,200)	(2,164)
Chg in Deposit: Office Rent		-	-	-	(635)
Chg in Intang- purch software		356	3,545	-	-

Chg in Intang- Internal Software	(3,163)	(773)	(1,355)	-
Chg in Leasehold Improvements	(303)	(577)	(1,495)	-
Chg in less: Accumulated Amort S/W	608	(1,343)	402	402
Chg in less: Accumulated Amort Leasehold	-	193	402	402
Amortisation	(608)	(716)	(402)	-

Detailed UCA Cash Flow Statement
WILSON LOG LOGISTICS (P/L) (150)
Industry Classification: SIC Code:
Amounts Printed in: Thousands

Prepared: 06:29, 06/06
Pa
ESM Vers

Statement Date	31/12/2002	31/12/2003	31/12/2004	31/12/2005	31/03/2006
No. of Months	12	12	12	12	3
Audit Method	Unqualif'd	Unqualif'd	Unqualif'd	Unqualif'd	CO.PREP'D
Prepared By				S Bezuiden...	S Bezuiden...
Cash Received/(Paid) from					
Plant and Investments		(5,633)	(2,746)	(8,648)	(1,995)
FINANCING SURPLUS (REQUIREMENTS)		(4,328)	15,497	(10,598)	(56,221)
Chg in Overdrafts		-	-	-	33,510
Chg in Loans > 1 year - Secured		(684)	510	752	3,760
Chg in Loans > 1 year - Unsecured		-	-	3,626	-
Current Portion - Long Term Debt		1,389	1,371	2,685	(2,014)
Chg in Ceded Loans: Directors		-	182	(182)	3,334
Chg in Share Premium		2,314	-	-	-
Change in Accounting Policy		-	136	-	-
Total External Financing		3,019	2,199	6,881	38,590
CASH AFTER FINANCING		(1,309)	17,696	(3,717)	(17,631)
Add:					
Cash		5,089	3,780	21,476	17,759
ENDING CASH AND EQUIVALENTS		3,780	21,476	17,759	128

APPENDIX F: QUESTIONNAIRE

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Questionnaire number

v1					

EXPLORING THE IDENTIFICATION OF VERIFIER DETERMINANTS IN BUSINESS DECLINE

Dear Respondent,

Thank you for giving up some of your precious time for this research without which success is impossible.

The following questionnaire is part of a research study undertaken to investigate the identification of verifier determinants. Your personal thinking is crucial. There are no right or wrong answers but it is important to indicate **your personal views and thinking** irrespective of what you may believe others may think.

It will be highly appreciated if you would answer the questions posed to you as honestly as possible. All information will be treated as confidential and will only be used for risk modelling, academic purposes and reported as mathematical averages, variances and correlations.

Thank you very much,

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PLEASE DO NOT USE GROUP DECISION-MAKING
The questions are based on consulting reports about the typical business scenario in specific ventures.
Please tick the box which represents your answer with a cross “x”.

- **Sample Statement:** An unprecedented number of credit notes to debtors may indicate poor product quality, leading to cash flow problems.

- You are required to indicate the importance of the statement on the following scale.

1 Not Important	2 Mildly Important	3 Very Important	4 Most Important

Please tick the box which is most representative of your personal view and thinking.

Remember - consider your own thinking. Be as honest as possible. There is no right, wrong or expected answer.

	When you visit a business where there is suspicion of potential decline, how important will the following be to verify decline		1 Not Important	2 Mildly Important	3 Very Important	4 Most Important	V	
1.	No or limited management information system in operation		☐	☐	☐	☐	2	☐
2.	Managers education does not compliment business		☐	☐	☐	☐	3	☐
3.	Entrepreneur is “scapegoating” (blaming)		☐	☐	☐	☐	4	☐
4.	Inflexibility when making decisions regarding change		☐	☐	☐	☐	5	☐
5.	Entrepreneur absent from work and important meetings		☐	☐	☐	☐	6	☐
6.	Impulsive decision making		☐	☐	☐	☐	7	☐
7.	Not able to recall management info immediately (ask others)		☐	☐	☐	☐	8	☐
8.	Absence of up to date management accounts		☐	☐	☐	☐	9	☐
9.	Important decision made on golf course		☐	☐	☐	☐	10	☐
10.	Manager’s personal problems, health or marriage, overshadow business focus		☐	☐	☐	☐	11	☐
11.	Super cars and "toys"		☐	☐	☐	☐	12	☐
12.	Business has outgrown managers/ owners/ directors skills set		☐	☐	☐	☐	13	☐
13.	Labour cost excessive for business type		☐	☐	☐	☐	14	☐
14.	Absence of or unrealistic cash flow projections		☐	☐	☐	☐	15	
15.	A high risk project or one big project dependence.		☐	☐	☐	☐	16	☐
16.	Late submission of financials in an attempt to postpone unfavourable news		☐	☐	☐	☐	17	☐
17.	Sensitivity on tax avoidance		☐	☐	☐	☐	18	☐
18.	Not analysing internal financial information		☐	☐	☐	☐	19	☐
19.	Underutilisation of assets		☐	☐	☐	☐	20	☐
20.	Creative accounting		☐	☐	☐	☐	21	☐
21.	Pricing and discounts for cash generation		☐	☐	☐	☐	22	☐
22.	Slowing down and stretching payments to suppliers in an attempt to generate cash		☐	☐	☐	☐	23	☐
23.	High executive remuneration		☐	☐	☐	☐	24	☐

24.	Dividend payouts unstructured and considered too high		☐	☐	☐	☐	25	☐
25	Forced growth through mergers and acquisitions		☐	☐	☐	☐	26	☐
26	Overambitious growth strategy		☐	☐	☐	☐	27	☐
27	Not willing to deviate from strategic plan		☐	☐	☐	☐	28	☐
28	Non responsive to small inefficiencies.		☐	☐	☐	☐	29	☐
29	Unclear strategy for product and market		☐	☐	☐	☐	30	☐
30	Inability to adapt to business life cycles		☐	☐	☐	☐	31	☐
31	Difficult fit between strategic posture, organization structure and industry life cycle		☐	☐	☐	☐	32	☐
32	Overexpansion of capacity without considering market		☐	☐	☐	☐	33	☐
33	Lack of strategies to combat decline		☐	☐	☐	☐	34	☐
34	Lack of fusion between strategic issues and everyday operations		☐	☐	☐	☐	35	☐
35	Inappropriate channels of distribution.		☐	☐	☐	☐	36	☐
36	Aging production techniques		☐	☐	☐	☐	37	☐
37	Not knowing about new technology in his industry		☐	☐	☐	☐	38	☐
38	Misinterpretation of competitive advantage		☐	☐	☐	☐	39	☐
39	Declining emphasis on advertising		☐	☐	☐	☐	40	☐
40	Poor service or products		☐	☐	☐	☐	41	☐
41	Reliance on one customer		☐	☐	☐	☐	42	☐
42	Failure to respond to high cost in comparison with competitors		☐	☐	☐	☐	43	☐
43	Market forces ignored in planning		☐	☐	☐	☐	44	☐
44	Core markets moving away from location		☐	☐	☐	☐	45	☐
45	Regular stop payments on creditor obligations		☐	☐	☐	☐	46	☐
46	Increase in short term requests for cash flow purposes		☐	☐	☐	☐	47	☐
47	Declining deposit balances, and/or returned cheques.		☐	☐	☐	☐	48	☐
48	Rounded amounts paid to creditors		☐	☐	☐	☐	49	☐
49	Overdraft advance funds other purposes, such as asset acquisition.		☐	☐	☐	☐	50	☐
50	Funding structure does not complement business model		☐	☐	☐	☐	51	☐

51

My gender is male / female (Circle choice)

52			
53			

52

I am senior / middle / junior management (Circle choice)

53

54			

How long have you been in this position _____....... years

54

55		

I feel qualified to make these judgments. Yes / no

55

56			

How ;long have you been in banking ____ years

56

57			

My age is _____ years

57

58			

My highest educational qualification is ________________

58

59			

I work in the credit or credit risk ___________discipline

59

60			

Completing this questionnaire was: very easy / easy /

difficult / very difficult for me. (Circle your choice)

THE END:

Thank you for sacrificing your time to complete this questionnaire. Your contribution is highly valued and appreciated.

APPENDIX G: COMPANIES ACT, ACT 71 OF 2008

CHAPTER 6 OF THE ACT
BUSINESS RESCUE AND COMPROMISE WITH CREDITORS

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

IMPORTANT NOTICE ABOUT THE ACT, ACT 71 OF 2008.

This study was conducted, using the publication of Companies Act, Act 71 of 2008, as was published during 2008. The subsequent Amendment Bills were included, and updated in this study, up to the end of 2010. It is a known fact that the implementation of the Act was still pending, subject to Presidential signs-off; at the time, this research thesis was submitted for examination..

CHAPTER 6

BUSINESS RESCUE AND COMPROMISE WITH CREDITORS

Part

Business rescue proceedings

Application and definitions applicable to Chapter

128. (1) In this Chapter—

(a) **"affected person"**, in relation to a company, means—
- (i) a shareholder or creditor of the company;
- (ii) any registered trade union representing employees of the company; and
- (iii) if any of the employees of the company are not represented by a registered trade union, each of those employees or their respective representatives;

(b) **"business rescue"** means proceedings to facilitate the rehabilitation of a company that is financially distressed by providing for—
- (i) the temporary supervision of the company, and of the management of its affairs, business and property;
- (ii) a temporary moratorium on the rights of claimants against the company or in respect of property in its possession; and
- (iii) the development and implementation, if approved, of a plan to rescue the company by restructuring its affairs, business, property, debt and other liabilities, and equity in a manner that maximises the likelihood of the company continuing in existence on a solvent basis or, if it is not possible for the company to so continue in existence, results in a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company;

(c) **"business rescue plan"** means a plan contemplated in section 150;

(d) **"business rescue practitioner"** means a person appointed, or two or more persons appointed jointly, in terms of this Chapter to oversee a company during business rescue proceedings and 'practitioner' has a corresponding meaning;

(e) **"court"**, depending on the context, means either—
- (i) the High Court that has jurisdiction over the matter; or
- (ii) either—
  - *(aa)* a designated judge of the High Court that has jurisdiction over the matter, if the Judge President has designated any judges in terms of subsection (3); or
  - *(bb)* a judge of the High Court that has jurisdiction over the matter, as assigned by the Judge President to hear the particular matter, if the Judge President has not designated any judges in terms of subsection (3);

(f) **"financially distressed"**, in reference to a particular company at any particular time, means that—
- (i) it appears to be reasonably unlikely that the company will be able to pay all of its debts as they fall due and payable within the immediately ensuing six months; or
- (ii) it appears to be reasonably likely that the company will become insolvent within the immediately ensuing six months;

(g) **"independent creditor"** means a person who—
- (i) is a creditor of the company, including an employee of the company who is a creditor in terms of section 144(2); and
- (ii) is not related to the company, a director, or the practitioner, subject to subsection (2);

(h) **"rescuing the company"** means achieving the goals set out in the definition of **"business rescue"** in paragraph *(b)*;

(i) **"supervision"** means the oversight imposed on a company during its business rescue proceedings; and

(*j*) **"voting interest"** means an interest as recognised, appraised and valued in terms of section 145(4) to (6).

(2) For the purpose of subsection (1)(*f*), an employee of a company is not related to that company solely as a result of being a member of a trade union that holds shares of that company.

(3) For the purposes contemplated in subsection (1)(*e*) or in any other law, the Judge President of a High Court may designate any judge of that court generally as a specialist to determine issues relating to commercial matters, commercial insolvencies and business rescue.

Company resolution to begin business rescue proceedings

129. (1) Subject to subsection (2)(*a*), the board of a company may resolve that the company voluntarily begin business rescue proceedings and place the company under supervision, if the board has reasonable grounds to believe that—

(*a*) the company is financially distressed; and

(*b*) there appears to be a reasonable prospect of rescuing the company.

(2) A resolution contemplated in subsection (1)—

(*a*) may not be adopted if liquidation proceedings have been initiated by or against the company; and

(*b*) has no force or effect until it has been filed.

(3) Within five business days after a company has adopted and filed a resolution, as contemplated in subsection (1), or such longer time as the Commission, on application by the company, may allow, the company must—

(*a*) publish a notice of the resolution, and its effective date, in the prescribed manner to every affected person, including with the notice a sworn statement of the facts relevant to the grounds on which the board resolution was founded; and

(*b*) appoint a business rescue practitioner who satisfies the requirements of section 138, and who has consented in writing to accept the appointment.

(4) After appointing a practitioner as required by subsection (3)(*b*), a company must—

(*a*) file a notice of the appointment of a practitioner within two business days after making the appointment; and

(*b*) publish a copy of the notice of appointment to each affected person within five business days after the notice was filed.

(5) If a company fails to comply with any provision of subsection (3) or (4)—

(*a*) its resolution to begin business rescue proceedings and place the company under supervision lapses and is a nullity; and

(*b*) the company may not file a further resolution contemplated in subsection (1) for a period of three months after the date on which the lapsed resolution was adopted, unless a court, on good cause shown on an *ex parte* application, approves the company filing a further resolution.

(6) A company that has adopted a resolution contemplated in this section may not adopt a resolution to begin liquidation proceedings, unless the resolution has lapsed in terms of subsection (5), or until the business rescue proceedings have ended as determined in accordance with section 132(2).

(7) If the board of a company has reasonable grounds to believe that the company is financially distressed, but the board has not adopted a resolution contemplated in this section, the board must deliver a written notice to each affected person, setting out the criteria referred to in section 128(1)(*e*) that are applicable to the company, and its reasons for not adopting a resolution contemplated in this section.

Objections to company resolution

130. (1) Subject to subsection (2), at any time after the adoption of a resolution in terms of section 129, until the adoption of a business rescue plan in terms of section 152, an affected person may apply to a court for an order—

(*a*) setting aside the resolution, on the grounds that—

(i) there is no reasonable basis for believing that the company is financially distressed;

(ii) there is no reasonable prospect for rescuing the company; or

(iii) the company has failed to satisfy the procedural requirements set out in section 129;

(b) setting aside the appointment of the practitioner, on the grounds that the practitioner—

(i) does not satisfy the requirements of section 138;

(ii) is not independent of the company or its management; or

(iii) lacks the necessary skills, having regard to the company's circumstances; or

(c) requiring the practitioner to provide security in an amount and on terms and conditions that the court considers necessary to secure the interests of the company and any affected persons.

(2) An affected person who, as a director of a company, voted in favour of a resolution contemplated in section 129 may not apply to a court in terms of—

(a) subsection (1)*(a)* to set aside that resolution; or

(b) subsection (1)*(b)* to set aside the appointment of the practitioner appointed by the company,

unless that person satisfies the court that the person, in supporting the resolution, acted in good faith on the basis of information that has subsequently been found to be false or misleading.

(3) An applicant in terms of subsection (1) must—

(a) serve a copy of the application on the company and the Commission; and

(b) notify each affected person of the application in the prescribed manner.

(4) Each affected person has a right to participate in the hearing of an application in terms of this section.

(5) When considering an application in terms of subsection (1)*(a)* to set aside the company's resolution, the court may—

(a) set aside the resolution—

(i) on any grounds set out in subsection (1); or

(ii) if, having regard to all of the evidence, the court considers that it is otherwise just and equitable to do so;

(b) afford the practitioner sufficient time to form an opinion whether or not—

(i) the company appears to be financially distressed; or

(ii) there is a reasonable prospect of rescuing the company,

and after receiving a report from the practitioner, may set aside the company's resolution if the court concludes that the company is not financially distressed, or there is no reasonable prospect of rescuing the company; and

(c) if it makes an order under paragraph *(a)* or *(b)* setting aside the company's resolution, may make any further necessary and appropriate order, including—

(i) an order placing the company under liquidation; or

(ii) if the court has found that there were no reasonable grounds for believing that the company would be unlikely to pay all of its debts as they became due and payable, an order of costs against any director who voted in favour of the resolution to commence business rescue proceedings, unless the court is satisfied that the director acted in good faith and on the basis of information that the director was entitled to rely upon in terms of section 76(4) and (5).

(6) If, after considering an application in terms of subsection (1)*(b)*, the court makes an order setting aside the appointment of a practitioner—

(a) the court must appoint an alternate practitioner who satisfies the requirements of section 138, recommended by, or acceptable to, the holders of a majority of the independent creditors' voting interests who were represented in the hearing before the court; and

(b) the provisions of subsection (5)*(b)*, if relevant, apply to the practitioner appointed in terms of paragraph *(a)*.

Court order to begin business rescue proceedings

131. (1) Unless a company has adopted a resolution contemplated in section 129, an affected person may apply to a court at any time for an order placing the company under supervision and commencing business rescue proceedings.

(2) An applicant in terms of subsection (1) must—

(a) serve a copy of the application on the company and the Commission; and

(b) notify each affected person of the application in the prescribed manner.

(3) Each affected person has a right to participate in the hearing of an application in terms of this section.

(4) After considering an application in terms of subsection (1), the court may—

(a) make an order placing the company under supervision and commencing business rescue proceedings, if the court is satisfied that—

(i) the company is financially distressed;

(ii) the company has failed to pay over any amount in terms of an obligation under or in terms of a public regulation, or contract, with respect to employment-related matters; or

(iii) it is otherwise just and equitable to do so for financial reasons,

and there is a reasonable prospect for rescuing the company; or

(b) dismissing the application, together with any further necessary and appropriate order, including an order placing the company under liquidation.

(5) If the court makes an order in terms of subsection (4)*(a)*, the court may make a further order appointing as interim practitioner a person who satisfies the requirements of section 138, and who has been nominated by the affected person who applied in terms of subsection (1), subject to ratification by the holders of a majority of the independent creditors' voting interests at the first meeting of creditors, as contemplated in section 147.

(6) If liquidation proceedings have already been commenced by or against the company at the time an application is made in terms of subsection (1), the application will suspend those liquidation proceedings until—

(a) the court has adjudicated upon the application; or

(b) the business rescue proceedings end, if the court makes the order applied for.

(7) In addition to the powers of a court on an application contemplated in this section, a court may make an order contemplated in subsection (4), or (5) if applicable, at any time during the course of any liquidation proceedings or proceedings to enforce any security against the company.

(8) A company that has been placed under supervision in terms of this section—

(a) may not adopt a resolution placing itself in liquidation until the business rescue proceedings have ended as determined in accordance with section 132(2); and

(b) must notify each affected person of the order within five business days after the date of the order.

Duration of business rescue proceedings

132. (1) Business rescue proceedings begin when—

(a) the company—

(i) files a resolution to place itself under supervision in terms of section 129(3); or

(ii) applies to the court for consent to file a resolution in terms of section 129(5)*(b)*;

(b) a person applies to the court for an order placing the company under supervision in terms of section 131(1); or

(c) during the course of liquidation proceedings, or proceedings to enforce a security interest, a court makes an order placing the company under supervision.

(2) Business rescue proceedings end when—

(a) the court—

(i) sets aside the resolution or order that began those proceedings; or

(ii) has converted the proceedings to liquidation proceedings;

(b) the practitioner has filed with the Commission a notice of the termination of business rescue proceedings; or

(c) a business rescue plan has been—

(i) proposed and rejected in terms of Part D of this Chapter, and no affected person has acted to extend the proceedings in any manner contemplated in section 153; or

(ii) adopted in terms of Part D of this Chapter, and the practitioner has subsequently filed a notice of substantial implementation of that plan.

(3) If a company's business rescue proceedings have not ended within three months after the start of those proceedings, or such longer time as the court, on application by the practitioner, may allow, the practitioner must—

(a) prepare a report on the progress of the business rescue proceedings, and update it at the end of each subsequent month until the end of those proceedings; and

(b) deliver the report and each update in the prescribed manner to each affected person, and to the—

(i) court, if the proceedings have been the subject of a court order; or

(ii) Commission, in any other case.

General moratorium on legal proceedings against company

133. (1) During business rescue proceedings, no legal proceeding, including enforcement action, against the company, or in relation to any property belonging to the company, or lawfully in its possession, may be commenced or proceeded with in any forum, except—

(a) with the written consent of the practitioner;

(b) with the leave of the court and in accordance with any terms the court considers suitable;

(c) as a set-off against any claim made by the company in any legal proceedings, irrespective whether those proceedings commenced before or after the business rescue proceedings began;

(d) criminal proceedings against the company or any of its directors or officers; or

(e) proceedings concerning any property or right over which the company exercises the powers of a trustee.

(2) During business rescue proceedings, a guarantee or surety by a company in favour of any other person may not be enforced by any person against the company except with leave of the court and in accordance with any terms the court considers just and equitable in the circumstances.

(3) If any right to commence proceedings or otherwise assert a claim against a company is subject to a time limit, the measurement of that time must be suspended during the company's business rescue proceedings.

Protection of property interests

134. Subject to subsections (2) and (3), during a company's business rescue proceedings—

(a) the company may dispose, or agree to dispose, of property only—

(i) in the ordinary course of its business;

(ii) in a *bona fide* transaction at arm's length for fair value approved in advance and in writing by the practitioner; or

(iii) in a transaction contemplated within, and undertaken as part of the implementation of, a business rescue plan that has been approved in terms of section 152;

(b) any person who, as a result of an agreement made in the ordinary course of the company's business before the business rescue proceedings began, is in lawful possession of any property owned by the company may continue to exercise any right in respect of that property as contemplated in that agreement, subject to section 136; and

(c) despite any provision of an agreement to the contrary, no person may exercise any right in respect of any property in the lawful possession of the company, irrespective whether the property is owned by the company, except to the extent that the practitioner consents in writing.

(2) The practitioner may not unreasonably withhold consent in terms of subsection (1)*(c)*, having regard to—

(a) the purposes of this Chapter;

(b) the circumstances of the company; and

(*c*) the nature of the property, and the rights claimed in respect of it.

(3) If, during a company's business rescue proceedings, the company wishes to dispose of any property over which another person has any security or title interest, the company must—

(*a*) obtain the prior consent of that other person, unless the proceeds of the disposal would be sufficient to fully discharge the indebtedness protected by that person's security or title interest; and

(*b*) promptly—

(i) pay to that other person the sale proceeds attributable to that property up to the amount of the company's indebtedness to that other person; or

(ii) provide security for the amount of those proceeds, to the reasonable satisfaction of that other person.

Post-commencement finance

135. (1) To the extent that any remuneration, reimbursement for expenses or other amount of money relating to employment becomes due and payable by a company to an employee during the company's business rescue proceedings, but is not paid to the employee—

(*a*) the money is regarded to be post-commencement financing; and

(*b*) will be paid in the order of preference set out in subsection (3)(*a*).

(2) During its business rescue proceedings, the company may obtain financing other than as contemplated is subsection (1), and any such financing—

(*a*) may be secured to the lender by utilising any asset of the company to the extent that it is not otherwise encumbered; and

(*b*) will be paid in the order of preference set out in subsection (3)(*b*).

(3) After payment of the practitioner's remuneration and costs referred to in section 143, and other claims arising out of the costs of the business rescue proceedings, all claims contemplated—

(*a*) in subsection (1) will be treated equally, but will have preference over—

(i) all claims contemplated in subsection (2), irrespective whether or not they are secured; and

(ii) all unsecured claims against the company; or

(*b*) in subsection (2) will have preference in the order in which they were incurred over all unsecured claims against the company.

(4) If business rescue proceedings are superseded by a liquidation order, the preference conferred in terms of this section will remain in force, except to the extent of any claims arising out of the costs of liquidation.

Effect of business rescue on employees and contracts

136. (1) Despite any provision of an agreement to the contrary—

(*a*) during a company's business rescue proceedings employees of the company immediately before the beginning of those proceedings continue to be so employed on the same terms and conditions, except to the extent that—

(i) changes occur in the ordinary course of attrition; or

(ii) the employees and the company, in accordance with applicable labour laws, agree different terms and conditions; and

(*b*) any retrenchment of any such employees contemplated in the company's business rescue plan is subject to section 189 and 189A of the Labour Relations Act, 1995 (Act No. 66 of 1995), and other applicable employment related legislation.

(2) Subject to sections 35A and 35B of the Insolvency Act, 1936 (Act No. 24 of 1936), despite any provision of an agreement to the contrary, during business rescue proceedings, the practitioner may cancel or suspend entirely, partially or conditionally any provision of an agreement to which the company is a party at the commencement of the business rescue period, other than an agreement of employment.

(3) Any party to an agreement that has been suspended or cancelled, or any provision which has been suspended or cancelled, in terms of subsection (2), may assert a claim against the company only for damages.

(4) If liquidation proceedings have been converted into business rescue proceedings, the liquidator is a creditor of the company to the extent of any outstanding claim by the liquidator for any remuneration due for work performed, or compensation for expenses incurred, before the business rescue proceedings began.

Effect on shareholders and directors

137. (1) During business rescue proceedings an alteration in the classification or status of any issued securities of a company, other than by way of a transfer of securities in the ordinary course of business, is invalid except to the extent—

(a) that the court otherwise directs; or
(b) contemplated in an approved business rescue plan.

(2) During a company's business rescue proceedings, each director of the company—

(a) must continue to exercise the functions of director, subject to the authority of the practitioner;
(b) has a duty to the company to exercise any management function within the company in accordance with the express instructions or direction of the practitioner, to the extent that it is reasonable to do so;
(c) remains bound by the requirements of section 75 concerning personal financial interests of the director or a related person; and
(d) to the extent that the director acts in accordance with paragraphs *(b)* and *(c)*, is relieved from the duties of a director as set out in section 76, and the liabilities set out in section 77, other than section 77(3)*(a)*, *(b)* and *(c)*.

(3) During a company's business rescue proceedings, each director of the company must attend to the requests of the practitioner at all times, and provide the practitioner with any information about the company's affairs as may reasonably be required.

(4) If, during a company's business rescue proceedings, the board, or one or more directors of the company, purports to take any action on behalf of the company that requires the approval of the practitioner, that action is void unless approved by the practitioner.

(5) At any time during the business rescue proceedings, the practitioner may apply to a court for an order removing a director from office on the grounds that the director has—

(a) failed to comply with a requirement of this Chapter; or
(b) by act or omission, has impeded, or is impeding—
  (i) the practitioner in the performance of the powers and functions of practitioner;
  (ii) the management of the company by the practitioner; or
  (iii) the development or implementation of a business rescue plan in accordance with this Chapter.

(6) Subsection (5) is in addition to any right of a person to apply to a court for an order contemplated in section 162.

Part B

Practitioner's functions and terms of appointment

Qualifications of practitioners

138. (1) A person may be appointed as the practitioner of a company only if the person—

(a) is a member in good standing of a profession subject to regulation by a regulatory authority prescribed by the Minister in terms of subsection (2);
(b) is not subject to an order of probation in terms of section 162(7);
(c) would not be disqualified from acting as a director of the company in terms of section 69(8);

(*d*) does not have any other relationship with the company such as would lead a reasonable and informed third party to conclude that the integrity, impartiality or objectivity of that person is compromised by that relationship; and

(*e*) is not related to a person who has a relationship contemplated in paragraph (*d*).

(2) The Minister may designate one person or association within the Republic to regulate the practice of persons as practitioners in terms of this Act, if that person or association—

(*a*) is committed to achieving the purposes of this Chapter;

(*b*) functions predominantly to promote sound principles and good practice of business turnaround or rescue; and

(*c*) has sufficient human, financial and operational resources, and adequate administrative procedures and safeguards, to enable it to function efficiently and to effectively carry out its functions in terms of this Chapter, or presents to the Minister a credible plan to acquire or develop those resources.

(3) The Minister may—

(*a*) impose reasonable conditions upon a person or association designated by the Minister in terms of subsection (2) with respect to the carrying out of its functions and powers in terms of this Chapter; and

(*b*) make regulations prescribing—

(i) minimum qualifications for admission of a person to the practice of a business rescue practitioner; and

(ii) procedures to be followed by a person or association designated by the Minister in terms of subsection (2) in carrying out its functions and powers in terms of this Chapter.

Removal and replacement of practitioner

139. (1) A practitioner may be removed only—

(*a*) by a court order in terms of section 130; or

(*b*) as provided for in this section.

(2) Upon request of an affected person, or on its own motion, the court may remove a practitioner from office on any of the following grounds:

(*a*) Incompetence or failure to perform duties;

(*b*) failure to exercise the proper degree of care in the performance of the practitioner's functions;

(*c*) engaging in illegal acts or conduct;

(*d*) if the practitioner no longer satisfies the requirements set out in section 138(1);

(*e*) conflict of interest or lack of independence; or

(*f*) the practitioner is incapacitated and unable to perform the functions of that office, and is unlikely to regain that capacity within a reasonable time.

(3) The company, or the creditor who nominated the practitioner, as the case may be, must appoint a new practitioner if a practitioner dies, resigns or is removed from office, subject to the right of an affected person to bring a fresh application in terms of section 130(1)(*b*) to set aside that new appointment.

General powers and duties of practitioners

140. (1) During a company's business rescue proceedings, the practitioner, in addition to any other powers and duties set out in this Chapter—

(*a*) has full management control of the company in substitution for its board and pre-existing management;

(*b*) may delegate any power or function of the practitioner to a person who was part of the board or pre-existing management of the company;

(*c*) may—

(i) remove from office any person who forms part of the pre-existing management of the company; or

(ii) appoint a person as part of the management of a company, whether to fill a vacancy or not, subject to subsection (2); and

(*d*) is responsible to—
(i) develop a business rescue plan to be considered by affected persons, in accordance with Part D of this Chapter; and
(ii) implement any business rescue plan that has been adopted in accordance with Part D of this Chapter.

(2) Except with the approval of the court on application by the practitioner, a practitioner may not appoint a person as part of the management of the company, or an advisor to the company or to the practitioner, if that person—
(*a*) has any other relationship with the company such as would lead a reasonable and informed third party to conclude that the integrity, impartiality or objectivity of that person is compromised by that relationship; or
(*b*) is related to a person who has a relationship contemplated in paragraph (*a*).

(3) During a company's business rescue proceedings, the practitioner—
(*a*) is an officer of the court, and must report to the court in accordance with any applicable rules of, or orders made by, the court;
(*b*) has the responsibilities, duties and liabilities of a director of the company, as set out in sections 75 to 77; and
(*c*) other than as contemplated in paragraph (*b*)—
(i) is not liable for any act or omission in good faith in the course of the exercise of the powers and performance of the functions of practitioner; but
(ii) may be held liable in accordance with any relevant law for the consequences of any act or omission amounting to gross negligence in the exercise of the powers and performance of the functions of practitioner.

(4) If the business rescue process concludes with an order placing the company in liquidation, any person who has acted as practitioner during the business rescue process may not be appointed as liquidator of the company.

Investigation of affairs of company

141. (1) As soon as practicable after being appointed, a practitioner must investigate the company's affairs, business, property, and financial situation, and after having done so, consider whether there is any reasonable prospect of the company being rescued.

(2) If, at any time during business rescue proceedings, the practitioner concludes that—
(*a*) there is no reasonable prospect for the company to be rescued, the practitioner must—
(i) so inform the court, the company, and all affected persons in the prescribed manner; and
(ii) apply to the court for an order discontinuing the business rescue proceedings and placing the company into liquidation;
(*b*) there no longer are reasonable grounds to believe that the company is financially distressed, the practitioner must so inform the court, the company, and all affected persons in the prescribed manner, and—
(i) if the business rescue process was confirmed by a court order in terms of section 130, or initiated by an application to the court in terms of section 131, apply to a court for an order terminating the business rescue proceedings; or
(ii) otherwise, file a notice of termination of the business rescue proceedings; or
(*c*) there is evidence, in the dealings of the company before the business rescue proceedings began, of—
(i) voidable transactions, or a failure by the company or any director to perform any material obligation relating to the company, the practitioner must direct the management to take any necessary steps to rectify the matter;
(ii) reckless trading, fraud or other contravention of any law relating to the company, the practitioner must—
(*aa*) forward the evidence to the appropriate authority for further investigation and possible prosecution; and

(bb) direct the management to take any necessary steps to rectify the matter, including recovering any misappropriated assets of the company.

(3) A court to which an application has been made in terms of subsection (2)*(a)*(ii) may make the order applied for, or any other order that the court considers appropriate in the circumstances.

Directors of company to co-operate with and assist practitioner

142. (1) As soon as practicable after business rescue proceedings begin, each director of a company must deliver to the practitioner all books and records that relate to the affairs of the company and are in the director's possession.

(2) Any director of a company who knows where other books and records relating to the company are being kept, must inform the practitioner as to the whereabouts of those books and records.

(3) Within five business days after business rescue proceedings begin, or such longer period as the practitioner allows, the directors of a company must provide the practitioner with a statement of affairs containing, at a minimum, particulars of the following:

(a) Any material transactions involved the company or the assets of the company, and occurring within 12 months immediately before the business rescue proceedings began;
(b) any court, arbitration or administrative proceedings, including enforcement proceedings, involving the company;
(c) the assets and liabilities of the company, and its income and disbursements within the immediately preceding 12 months;
(d) the number of employees, and any collective agreements or other agreements relating to the rights of employees;
(e) any debtors and their obligations to the company; and
(f) any creditors and their rights or claims against the company.

(4) No person is entitled, as against the practitioner of a company, to retain possession of any books or records of the company, or to claim or enforce a lien over any such books or records.

Remuneration of practitioner

143. (1) The practitioner is entitled to charge an amount to the company for the remuneration and expenses of the practitioner in accordance with the tariff prescribed in terms of subsection (6).

(2) The practitioner may propose an agreement with the company providing for further remuneration, additional to that contemplated in subsection (1), to be calculated on the basis of a contingency related to—

(a) the adoption of a business rescue plan at all, or within a particular time, or the inclusion of any particular matter within such a plan; or
(b) the attainment of any particular result or combination of results relating to the business rescue proceedings.

(3) Subject to subsection (4), an agreement contemplated in subsection (2) is final and binding on the company if it is approved by—

(a) the holders of a majority of the creditors' voting interests, as determined in accordance with section 145(4) to (6), present and voting at a meeting called for the purpose of considering the proposed agreement; and
(b) the holders of a majority of the voting rights attached to any shares of the company that entitle the shareholder to a portion of the residual value of the company on winding-up, present and voting at a meeting called for the purpose of considering the proposed agreement.

(4) A creditor or shareholder who voted against a proposal contemplated in this section may apply to a court within 10 business days after the date of voting on that proposal, for an order setting aside the agreement on the grounds that—

(a) the agreement is not just and equitable; or

(*b*) that the remuneration provided for in the agreement is egregiously unreasonable having regard to the financial circumstances of the company.

(5) To the extent that the practitioner's remuneration and expenses are not fully paid, the practitioner's claim for those amounts will rank in priority before the claims of all other secured and unsecured creditors.

(6) The Minister may make regulations prescribing a tariff of fees and expenses for the purpose of subsection (1).

Part C

Rights of affected persons during business rescue proceedings

Rights of employees

144. (1) During a company's business rescue proceedings any employees of the company who are—

(*a*) represented by a registered trade union may exercise any rights set out in this Chapter—
   (i) collectively through their trade union; and
   (ii) in accordance with applicable labour law; or

(*b*) not represented by a registered trade union may elect to exercise any rights set out in this Chapter either directly, or by proxy through an employee organisation or representative.

(2) To the extent that any remuneration, reimbursement for expenses or other amount of money relating to employment became due and payable by a company to an employee at any time before the beginning of the company's business rescue proceedings, and had not been paid to that employee immediately before the beginning of those proceedings, the employee is a preferred unsecured creditor of the company for the purposes of this Chapter.

(3) During a company's business rescue process, every registered trade union representing any employees of the company, and any employee who is not so represented, is entitled to—

(*a*) notice of each court proceeding, decision, meeting or other relevant event concerning the business rescue proceedings and such notice must be given to employees at their workplace and served at the head office of the relevant trade union;

(*b*) participate in any court proceedings arising during the business rescue proceedings;

(*c*) form a committee of employees' representatives;

(*d*) be consulted by the practitioner during the development of the business rescue plan, and afforded sufficient opportunity to review any such plan and prepare a submission contemplated in section 152(1)(*c*);

(*e*) be present and make a submission to the meeting of the holders of voting interests before a vote is taken on any proposed business rescue plan, as contemplated in section 152(1)(*c*);

(*f*) vote with creditors on a motion to approve a proposed business plan, to the extent that the employee is a creditor, as contemplated in subsection (1); and

(*g*) if the proposed business rescue plan is rejected, to—
   (i) propose the development of an alternative plan, in the manner contemplated in section 153; or
   (ii) present an offer to acquire the interests of one or more affected persons, in the manner contemplated in section 153.

(4) A medical scheme, or a pension scheme including a provident scheme, for the benefit of the past or present employees of a company is an unsecured creditor of the company for the purposes of this Chapter to the extent of—

(*a*) any amount that was due and payable by the company to the trustees of the scheme at any time before the beginning of the company's business rescue proceedings, and that had not been paid immediately before the beginning of those proceedings; and (*b*) in the case of a defined benefit pension scheme, the present value at the commencement of the business rescue proceedings of any unfunded liability under that scheme.

(5) The rights set out in this section are in addition to any other rights arising or accruing in terms of any law, contract, collective agreement, shareholding, security or court order.

Participation by creditors

145. (1) Each creditor is entitled to—

(*a*) notice of each court proceeding, decision, meeting or other relevant event concerning the business rescue proceedings;

(*b*) participate in any court proceedings arising during the business rescue proceedings;

(*c*) formally participate in a company's business rescue proceedings to the extent provided for in this Chapter; and

(*d*) informally participate in those proceedings by making proposals for a business rescue plan to the practitioner.

(2) In addition to the rights set out in subsection (1), each creditor has—

(*a*) the right to vote to amend, approve or reject a proposed business rescue plan, in the manner contemplated in section 152; and

(*b*) if the proposed business rescue plan is rejected, a further right to—

(i) propose the development of an alternative plan, in the manner contemplated in section 153; or

(ii) present an offer to acquire the interests of any or all of the other creditors in the manner contemplated in section 153.

(3) The creditors of a company are entitled to form a creditors' committee, and through that committee are entitled to be consulted by the practitioner during the development of the business rescue plan.

(4) In respect of any decision contemplated in this Chapter that requires the support of the holders of creditors' voting interests—

(*a*) a secured or unsecured creditor has a voting interest equal to the value of the amount owed to that creditor by the company; and

(*b*) a concurrent creditor who would be subordinated in a liquidation has a voting interest, as independently and expertly appraised and valued at the request of the practitioner, equal to the amount, if any, that the creditor could reasonably expect to receive in such a liquidation of the company.

(5) The practitioner of a company must—

(*a*) determine whether a creditor is independent for the purposes of this Chapter;

(*b*) request a suitably qualified person to independently and expertly appraise and value an interest contemplated in subsection (4)(*b*); and

(*c*) give a written notice of the determination, or appraisal and valuation, to the person concerned at least 15 business days before the date of the meeting to be convened in terms of section 151.

(6) Within five business days after receiving a notice of a determination contemplated in subsection (5), a person may apply to a court to—

(*a*) review the practitioner's determination that the person is, or is not, an independent creditor; or

(*b*) review, re-appraise and re-value that person's voting interest, as determined in terms of subsection (5)(*b*).

Participation by holders of company's securities

146. During a company's business rescue proceedings, each holder of any issued security of the company is entitled to—

(*a*) notice of each court proceeding, decision, meeting or other relevant event concerning the business rescue proceedings;

(*b*) participate in any court proceedings arising during the business rescue proceedings;

(2) A person may be a member of a committee of creditors or employees, respectively, only if the person is—

(a) an independent creditor, or an employee, of the company;
(b) an agent, proxy or attorney of an independent creditor or employee, or other person acting under a general power of attorney; or
(c) authorised in writing by an independent creditor or employee to be a member.

Part D

Development and approval of business rescue plan

Proposal of business rescue plan

150. (1) The practitioner, after consulting the creditors, other affected persons, and the management of the company, must prepare a business rescue plan for consideration and possible adoption at a meeting held in terms of section 151.

(2) The business rescue plan must contain all the information reasonably required to facilitate affected persons in deciding whether or not to accept or reject the plan, and must be divided into three Parts, as follows:

(a) **Part A—Background**, which must include at least—
  (i) a complete list of all the material assets of the company, as well as an indication as to which assets were held as security by creditors when the business rescue proceedings began;
  (ii) a complete list of the creditors of the company when the business rescue proceedings began, as well as an indication as to which creditors would qualify as secured, statutory preferent and concurrent in terms of the laws of insolvency, and an indication of which of the creditors have proved their claims;
  (iii) the probable dividend that would be received by creditors, in their specific classes, if the company were to be placed in liquidation;
  (iv) a complete list of the holders of the company's issued securities;
  (v) a copy of the written agreement concerning the practitioner's remuneration; and
  (vi) a statement whether the business rescue plan includes a proposal made informally by a creditor of the company.

(b) **Part B—Proposals**, which must include at least—
  (i) the nature and duration of any moratorium for which the business rescue plan makes provision;
  (ii) the extent to which the company is to be released from the payment of its debts, and the extent to which any debt is proposed to be converted to equity in the company, or another company;
  (iii) the ongoing role of the company, and the treatment of any existing agreements;
  (iv) the property of the company that is to be available to pay creditors' claims in terms of the business rescue plan;
  (v) the order of preference in which the proceeds of property will be applied to pay creditors if the business rescue plan is adopted;
  (vi) the benefits of adopting the business rescue plan as opposed to the benefits that would be received by creditors if the company were to be placed in liquidation; and
  (vii) the effect that the business rescue plan will have on the holders of each class of the company's issued securities.

(c) **Part C—Assumptions and conditions**, which must include at least—
  (i) a statement of the conditions that must be satisfied, if any, for the business rescue plan to—
    (aa) come into operation; and
    (bb) be fully implemented;
  (ii) the effect, if any, that the business rescue plan contemplates on the number of employees, and their terms and conditions of employment;

(iii) the circumstances in which the business rescue plan will end; and

(iv) a projected—

(aa) balance sheet for the company; and

(bb) statement of income and expenses for the ensuing three years, prepared on the assumption that the proposed business plan is adopted.

(3) The projected balance sheet and statement required by subsection (2)*(c)*(iv)—

(a) must include a notice of any material assumptions on which the projections are based; and

(b) may include alternative projections based on varying assumptions and contingencies.

(4) A proposed business rescue plan must conclude with a certificate by the practitioner stating that any—

(a) actual information provided appears to be accurate, complete, and up to date; and

(b) projections provided are estimates made in good faith on the basis of factual information and assumptions as set out in the statement.

(5) The business rescue plan must be published by the company within 25 business days after the date on which the practitioner was appointed, or such longer time as may be allowed by—

(a) the court, on application by the company; or

(b) the holders of a majority of the creditors' voting interests.

Meeting to determine future of company

151. (1) The practitioner must convene and preside over a meeting of creditors and any other holders of a voting interest, called for the purpose of considering the proposed rescue plan within 10 business days after the publication of that plan in terms of section 150.

(2) At least five business days before the meeting contemplated in subsection (1), the practitioner must deliver a notice of the meeting to all affected persons, setting out—

(a) the date, time and place of the meeting;

(b) the agenda of the meeting; and

(c) a summary of the rights of affected persons to participate in and vote at the meeting.

(3) The meeting contemplated in this section may be adjourned from time to time, as necessary or expedient, until a decision regarding the company's future has been taken in accordance with sections 152 and 153.

Consideration of business rescue plan

152. (1) At a meeting convened in terms of section 151, the practitioner must—

(a) introduce the proposed business rescue plan for consideration by the creditors, and if applicable, by the shareholders;

(b) inform the meeting whether the practitioner continues to believe that there is a reasonable prospect of the company being rescued;

(c) provide an opportunity for the employees' representatives to address the meeting;

(d) invite discussion, and entertain and conduct a vote, on any motions to—

(i) amend the proposed plan, in any manner moved and seconded by holders of creditors' voting interests, and satisfactory to the practitioner; or

(ii) direct the practitioner to adjourn the meeting in order to revise the plan for further consideration; and

(e) call for a vote for preliminary approval of the proposed plan, as amended if applicable, unless the meeting has first been adjourned in accordance with paragraph *(d)*(ii).

(2) In a vote called in terms of subsection (1)*(e)*, the proposed business rescue plan will be approved on a preliminary basis if—

(a) it was supported by the holders of more than 75% of the creditors' voting interests that were voted; and

(ii) advise the meeting that the company will apply to a court to set aside the result of the vote by the holders of voting interests or shareholders, as the case may be, on the grounds that it was inappropriate.

(b) If the practitioner does not take any action contemplated in paragraph *(a)*—

(i) any affected person present at the meeting may—

(aa) call for a vote of approval from the holders of voting interests requiring the practitioner to prepare and publish a revised plan; or

(bb) apply to the court to set aside the result of the vote by the holders of voting interests or shareholders, as the case may be, on the grounds that it was inappropriate; or

(ii) any affected person, or combination of affected persons, may make a binding offer to purchase the voting interests of one or more persons who opposed adoption of the business rescue plan, at a value independently and expertly determined, on the request of the practitioner, to be a fair and reasonable estimate of the return to that person, or those persons, if the company were to be liquidated.

(2) If the practitioner, acting in terms of subsection (1)*(a)*(ii), or an affected person, acting in terms of subsection (1)*(b)*(i)*(bb)*, informs the meeting that an application will be made to the court as contemplated in those provisions, the practitioner must adjourn the meeting—

(a) for five business days, unless the contemplated application is made to the court during that time; or

(b) until the court has disposed of the contemplated application.

(3) If, on the request of the practitioner in terms of subsection (1)*(a)*(i), or a call by an affected person in terms of subsection (1)*(b)*(i)*(aa)*, the meeting directs the practitioner to prepare and publish a revised business rescue plan—

(a) the practitioner must—

(i) conclude the meeting after that vote; and

(ii) prepare and publish a new or revised business rescue plan within 10 business days; and

(b) the provisions of this Part apply afresh to the publishing and consideration of that new or revised plan.

(4) If an affected person makes an offer contemplated in subsection (1)*(b)*(ii), the practitioner must—

(a) adjourn the meeting for no more than five business days, as necessary to afford the practitioner an opportunity to make any necessary revisions to the business rescue plan to appropriately reflect the results of the offer; and

(b) set a date for resumption of the meeting, without further notice, at which the provisions of section 152 and this section will apply afresh.

(5) If no person takes any action contemplated in subsection (1), the practitioner must promptly file a notice of the termination of the business rescue proceedings.

(6) A holder of a voting interest, or a person acquiring that interest in terms of a binding offer, may apply to a court to review, re-appraise and re-value a determination by an independent expert in terms of subsection (1)*(b)*(ii).

Discharge of debts and claims

154. (1) A business rescue plan may provide that, if it is implemented in accordance with its terms and conditions, a creditor who has acceded to the discharge of the whole or part of a debt owing to that creditor will lose the right to enforce the relevant debt or part of it.

(2) If a business rescue plan has been approved and implemented in accordance with this Chapter, a creditor is not entitled to enforce any debt owed by the company immediately before the beginning of the business rescue process, except to the extent provided for in the business rescue plan.

Part E

Compromise with creditors

Compromise between company and creditors

155. (1) This section applies to a company, irrespective of whether or not it is financially distressed as defined in section 128(1)*(f)*, unless it is engaged in business rescue proceedings in terms of this Chapter.

(2) The board of a company, or the liquidator of such a company if it is being wound up, may propose an arrangement or a compromise of its financial obligations to all of its creditors, or to all of the members of any class of its creditors, by delivering a copy of the proposal, and notice of meeting to consider the proposal, to—

(a) every creditor of the company, or every member of the relevant class of creditors whose name or address is known to, or can reasonably be obtained by, the company; and
(b) the Commission.

(3) A proposal contemplated in subsection (2) must contain all information reasonably required to facilitate creditors in deciding whether or not to accept or reject the proposal, and must be divided into three Parts, as follows:

(a) **Part A—Background**, which must include at least—
  (i) a complete list of all the material assets of the company, as well as an indication as to which assets are held as security by creditors as of the date of the proposal;
  (ii) a complete list of the creditors of the company as of the date of the proposal, as well as an indication as to which creditors would qualify as secured, statutory preferent and concurrent in terms of the laws of insolvency, and an indication of which of the creditors have proved their claims;
  (iii) the probable dividend that would be received by creditors, in their specific classes, if the company were to be placed in liquidation;
  (iv) a complete list of the holders of the company issued securities, and the effect that the proposal would have on them, if any; and
  (v) whether the proposal includes a proposal made informally by a creditor of the company.
(b) **Part B—Proposals**, which must include at least—
  (i) the nature and duration of any proposed debt moratorium;
  (ii) the extent to which the company is to be released from the payment of its debts, and the extent to which any debt is proposed to be converted to equity in the company, or another company;
  (iii) the treatment of contracts and ongoing role of the company;
  (iv) the property of the company that is proposed to be available to pay creditors' claims;
  (v) the order of preference in which the proceeds of property of the company will be applied to pay creditors if the proposal is adopted; and
  (vi) the benefits of adopting the proposal as opposed to the benefits that would be received by creditors if the company were to be placed in liquidation.
(c) **Part C—Assumptions and conditions**, which must include at least—
  (i) a statement of the conditions that must be satisfied, if any, for the proposal to—
    (aa) come into operation; and
    (bb) be fully implemented;
  (ii) the effect, if any, that the plan contemplates on the number of employees, and their terms and conditions of employment; and
  (iii) a projected—
    (aa) balance sheet for the company; and
    (bb) statement of income and expenses for the ensuing three years,
  prepared on the assumption that the proposal is accepted.

(4) The projected balance sheet and statement required by subsection (3)*(c)*(iii)—
(a) must include a notice of any significant assumptions on which the projections are based; and
(b) may include alternative projections based on varying assumptions and contingencies.

(5) A proposal must conclude with a certificate by an authorised director or prescribed officer of the company stating that any—
(a) factual information provided appears to be accurate, complete, and up to the date; and
(b) projections provided are estimates made in good faith on the basis of factual information and assumptions as set out in the statement.

(6) A proposal contemplated in this section will have been adopted by the creditors of the company, or the members of a relevant class of creditors, if it is supported by a majority in number, representing at least 75% in value of the creditors or class, as the case may be, present and voting in person or by proxy, at a meeting called for that purpose.

(7) If a proposal is adopted as contemplated in subsection (6)—
(a) the company may apply to the court for an order approving the proposal; and
(b) the court, on an application in terms of paragraph *(a)* may sanction the compromise as set out in the adopted proposal, if it considers it just and equitable to do so, having regard to—
(i) the number of creditors of any affected class of creditors, who were present or represented at the meeting, and who voted in favour of the proposal; and
(ii) in the case of a compromise in respect of a company being wound up, the report of the Master required in terms of the laws contemplated in item 9 of Schedule 5.

(8) A copy of an order of the court sanctioning a compromise—
(a) must be filed by the company within five business days;
(b) must be attached to each copy of the company's Memorandum of Incorporation that is kept at the company's registered office, or elsewhere as contemplated in section 25; and
(c) is final and binding on all of the company's creditors or all of members of the relevant class of creditors, as the case may be, as of the date on which it is filed.

(9) An arrangement or a compromise contemplated in this section does not affect the liability of any person who is a surety of the company.

CHAPTER 7

REMEDIES AND ENFORCEMENT

Part A

General principles

Alternative procedures for addressing complaints or securing rights

156. A person referred to in section 157(1) may seek to address an alleged contravention of this Act, or to enforce any provision of, or right in terms of this Act, a company's Memorandum of Incorporation or rules, or a transaction or agreement contemplated in this Act, the company's Memorandum of Incorporation or rules, by—
(a) attempting to resolve any dispute with or within a company through alternative dispute resolution in accordance with Part C of this Chapter;
(b) applying to the Companies Tribunal for adjudication in respect of any matter for which such an application is permitted in terms of this Act;
(c) applying for appropriate relief to the division of the High Court that has jurisdiction over the matter; or
(d) filing a complaint in accordance with Part D of this Chapter within the time permitted by section 219 with—

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[(i) include a specific and prominent notice that the offer could result in circumstances contemplated above; and

(ii) include a specific statement setting out the extent to which the person or persons referred to above will be free to acquire further securities in the company without making a general offer, if the offer succeeds to the extent contemplated above.]".

Amendment of Title of Part of Chapter 6 of Act 71 of 2008

76. Chapter 6 of the principal Act is hereby amended by the substitution after the Title of the Chapter, for the Part heading, of the following heading:

"Part A"

Amendment of section 128 of Act 71 of 2008

77. Section 128 of the principal Act is hereby amended by—

(a) the substitution in subsection (1)*(f)* for subparagraph (i) of the following subparagraph:

"(i) it appears to be reasonably unlikely that the company will be able to pay all of its debts as they **[fall]** become due and payable within the immediately ensuing six months; or"

(b) the substitution, for subsection (2) of the following subsection:

"(2) For the purpose of subsection (1)**[*(f)*]***(g)*, an employee of a company is not related to that company solely as a result of being a member of a trade union that holds **[shares]** securities of that company.".

Amendment of section 129 of Act 71 of 2008

78. Section 129 of the principal Act is hereby amended by the substitution for subsection (7) of the following subsection:

"(7) If the board of a company has reasonable grounds to believe that the company is financially distressed, but the board has not adopted a resolution contemplated in this section, the board must deliver a written notice to each affected person, setting out the criteria referred to in section 128(1)**[*(e)*]***(f)* that are applicable to the company, and its reasons for not adopting a resolution contemplated in this section.".

Amendment of section 132 of Act 71 of 2008

79. Section 132 of the principal Act is hereby amended by—

(a) the substitution in subsection (1)*(b)* for paragraph *(b)* of the following paragraph:

"*(b)* **[a]** an affected a person applies to the court for an order placing the company under supervision in terms of section 131(1); or"; and

(b) the substitution in subsection (1) for paragraph *(c)* of the following paragraph:

"*(c)* a court makes an order placing a company under supervision during the course of liquidation proceedings, or proceedings to enforce a security interest, as contemplated in section 131(7) **[a court makes an order placing a company under supervision]**.".

Amendment of section 133 of Act 71 of 2008

80. Section 133 of the principal Act is hereby amended by the substitution in subsection (1) for paragraph *(c)* of the following paragraph:

"*(c)* as a set-off against any claim made by the company in any legal proceedings, irrespective of whether those proceedings commenced before or after the business rescue proceedings began;".

Amendment of section 134 of Act 71 of 2008

81. Section 134 of the principal Act is hereby amended by—

(a) the insertion after the section number of the following:
"(1)";

(b) the substitution of paragraph *(c)* of the following paragraph:
"*(c)* despite any provision of an agreement to the contrary, no person may exercise any right in respect of any property in the lawful possession of the company, irrespective of whether the property is owned by the company, except to the extent that the practitioner consents in writing.".

Amendment of section 135 of Act 71 of 2008

82. Section 135 of the principal Act is hereby amended by—

(a) the substitution in subsection (3) for the words preceding paragraph *(a)* of the following words:
"After payment of the practitioner's remuneration and **[costs]** expenses referred to in section 143, and other claims arising out of the costs of the business rescue proceedings, all claims contemplated—"; and

(b) the substitution in subsection 3*(a)* for subparagraph (i) of the following subparagraph:
"(i) all claims contemplated in subsection (2), irrespective of whether or not they are secured; and".

Amendment of section 136 of Act 71 of 2008

83. Section 136 of the principal Act is hereby amended by—

(a) the substitution for subsection (2) of the following subsection:
"(2) Subject to **[sections 35A and 35B of the Insolvency Act, 1936 (Act No. 24 of 1936)]** subsection (2A), and despite any provision of an agreement to the contrary, during business rescue proceedings, the practitioner may— **[cancel or]**

(a) entirely, partially or conditionally suspend, for the duration of the business rescue proceedings, **[entirely, partially or conditionally]** any obligation of the company that—

(i) arises under **[any provision of]** an agreement to which the company **[is]** was a party at the commencement of the business rescue **[period]** proceedings **[, other than an agreement of employment]** ; and

(ii) would otherwise become due during those proceedings; or

(b) apply urgently to a court to entirely, partially or conditionally cancel, on any terms that are just and reasonable in the circumstances, any agreement to which the company is a party.";

(b) the insertion after subsection (2) of the following subsection:
"(2A) When acting in terms of subsection (2)—

(a) a business rescue practitioner must not suspend any provision of—

(i) an employment contract; or

(ii) an agreement to which section 35A or 35B of the Insolvency Act, 1936 (Act No. 24 or 1936) applies;

(b) a court may not cancel any provision of an employment contract, except in the manner contemplated in subsection (1); and

(c) if a business practitioner suspends a provision of an agreement relating to security granted by the company, that provision nevertheless continues to apply for the purpose of section 134, with respect to any proposed disposal of property by the company.".

Substitution for section 138 of Act 71 of 2008

84. The principal Act is hereby amended by the substitution for section 138 of the following section:

"**Qualifications of practitioners**

138. (1) A person may be appointed as the business rescue practitioner of a company only if the person—
(a) is a member in good standing of—
(i) a legal, accounting or business management profession that is subject to regulation by a regulatory authority; or
(ii) has been **[prescribed]** licensed as such by the **[Minister]** Commission in terms of subsection (2);
(b) is not subject to an order of probation in terms of section 162 (7);
(c) would not be disqualified from acting as a director of the company in terms of section 69(8);
(d) does not have any other relationship with the company such as would lead a reasonable and informed third party to conclude that the integrity, impartiality or objectivity of that person is compromised by that relationship; and
(e) is not related to a person who has a relationship contemplated in paragraph *(d)*.

(2) **[The Minister]** For the purposes of subsection (1)*(a)*(ii), the Commission may **[designate one]** license any qualified person **[or association within the Republic to regulate the practice of persons]** to practice **[practitioners]** in terms of this **[Act]** Chapter**[,]** and may suspend or withdraw any such licence in the prescribed manner **[, if that person or association—**
(a) **is committed to achieving the purposes of this Chapter;**
(b) **functions predominantly to promote sound principles and good practice of business turnaround or rescue; and**
(c) **has sufficient human, financial and operational resources, and adequate administrative procedures and safeguards, to enable it to function efficiently and to effectively carry out its functions in terms of this Chapter, or presents to the Minister a credible plan to acquire or develop those resources]**.

(3) The Minister may make regulations prescribing—
(a) **[impose reasonable conditions upon a person or association designated by the Minister in terms of subsection (2), with respect to the carrying out of its functions and powers in terms of this Chapter; and]** standards and procedures to be followed by the Commission in carrying out its licencing functions and powers in terms of this section; and
(b) **[make regulations prescribing—]** minimum qualifications for a person to practice as a business rescue practitioner, including different minimum qualifications for different categories of companies.
[(i) minimum qualifications for admission of a person to the practice of a business rescue practitioner; and
[(ii) procedures to be followed by a person or association designated by the Minister in terms of subsection (2) in carrying out its functions and powers in terms of this Chapter]".

Amendment of section 139 of Act 71 of 2008

85. Section 139 of the principal Act is hereby amended by the substitution in subsection (2) for paragraph *(a)* of the following paragraph:

"*(a)* Incompetence or failure to perform the duties of a business rescue practitioner of the particular company;".

Amendment of section 142 of Act 71 of 2008

86. Section 142 of the principal Act is hereby amended by the substitution in subsection (3) for paragraphs *(a)* and *(b)* of the following paragraphs:

"*(a)* Any material transactions **[involved]** involving the company or the assets of the company, and occurring within 12 months immediately before the business rescue proceedings began;

(b) any court, arbitration or administrative proceedings, including pending enforcement proceedings, involving the company;".

Amendment of section 143 of Act 71 of 2008

87. Section 143 of the principal Act is hereby amended by the substitution in subsection (4) for paragraph *(b)* of the following paragraph:

"*(b)* **[that]** the remuneration provided for in the agreement is egregiously unreasonable having regard to the financial circumstances of the company.".

Amendment of section 144 of Act 71 of 2008

88. Section 144 of the principal Act is hereby amended by—

(a) the substitution in subsection (3) for paragraph *(a)* of the following paragraph:

"*(a)* notice, which must be given in the prescribed manner and form to employees at their workplace, and served at the head office of the relevant trade union, of each court proceeding, decision, meeting or other relevant event concerning the business rescue proceedings **[and such notice must be given to employees at their workplace and served at the head office of the relevant trade union]**;"; and

(b) the substitution in subsection (3) for paragraph *(f)* of the following paragraph:

"*(f)* vote with creditors on a motion to approve a proposed business plan, to the extent that the employee is a creditor, as contemplated in subsection **[(1)]**(2); and".

Amendment of section 151 of Act 71 of 2008

89. Section 151 of the principal Act is hereby amended by the substitution for subsection (1) of the following subsection:

"(1) **[The]** Within 10 business days after publishing a business rescue plan in terms of section 150, the practitioner must convene and preside over a meeting of creditors and any other holders of a voting interest, called for the purpose of considering the **[proposed rescue]** plan **[within 10 business days after the publication of that plan in terms of section 150]**.".

Amendment of section 152 of Act 71 of 2008

90. Section 152 of the principal Act is hereby amended by—

(a) the substitution in subsection (1) for paragraph *(a)* of the following paragraph:

"*(a)* introduce the proposed business plan for consideration by the creditors **[,]** and, if applicable, by the shareholders;"; and

(b) the substitution in subsection (6) for paragraph *(b)* of the following subsection:

"*(b)* if the business rescue plan was approved by the shareholders of the company, as contemplated in subsection (3)*(c)*, the practitioner may amend the company's Memorandum of Incorporation to authorise, and determine the preferences, rights, limitations and other terms of, any securities that are not otherwise authorised, but are contemplated to be issued in terms of the business rescue plan, despite any provision of section 16, 36 or 37 to the contrary.".

Amendment of section 153 of Act 71 of 2008

91. Section 153 of the principal Act is hereby amended by the insertion after subsection (6) of the following subsection:

"(7) On an application contemplated in subsection (1)*(a)*(ii), or (1)*(b)*(i)*(bb)*, a court may order that the vote on a business rescue plan be set aside if the court is satisfied that it is reasonable and just to do so, having regard to—

(a) the interests represented by the person or persons who voted against the proposed business rescue plan;

(b) the provision, if any, made in the proposed business rescue plan with respect to the interests of that person or those persons; and

(c) a fair and reasonable estimate of the return to that person, or those persons, if the company were to be liquidated.".

Amendment of section 159 of Act 71 of 2008

92. Section 159 of the principal Act is hereby amended by—

(a) the substitution in subsection (1) for paragraph *(b)* of the following paragraph:

"*(b)* that Act applies to a disclosure contemplated in this section by an employee, as defined in that Act, irrespective of whether that Act would otherwise apply to that disclosure.";

(b) the substitution in subsection (3)*(b)* for the words preceding paragraph (i) of the following words:

"the person making the disclosure reasonably believed at the time of the disclosure that the information showed or tended to show that a company or external company, or a director or prescribed officer of a company acting in that capacity, **[has]** had";

(c) the substitution in subsection (3)*(b)* for subparagraph (ii) and (iii) of the following subparagraphs:

"(ii) failed or **[is]** was failing to comply with any statutory obligation to which the company **[is]** was subject;

(iii) engaged in conduct that **[has]** had endangered, or **[is]** was likely to endanger, the health or safety of any individual, or had harmed or was likely to harm **[damage]** the environment;";

(d) the substitution in subsection (5) for paragraph *(b)* of the following paragraph:

"*(b)* directly or indirectly makes an express or implied threat, whether conditional or unconditional, to cause any detriment to the first person or to another person, and—

(i) intends the first person to fear that the threat will be carried out; or

(ii) is reckless as to causing the first person to fear that the threat will be carried out, **[irrespective of whether the first person actually feared that the threat would be carried out.]**

irrespective of whether the first person actually fears or feared that the threat will or would be carried out."; and

(e) the substitution in subsection (7) for the words preceding paragraph *(a)* of the following words:

"A public company **[and]** or a state-owned company must directly or indirectly—".

Amendment of section 160 of Act 71 of 2008

93. Section 160 of the principal Act is hereby amended by—

(a) the substitution for subsection (1) of the following subsection:

"(1) A person to whom a notice is delivered in terms of **[section 12(3) or section 14(3),]** this Act with respect to an application for reservation of a name, registration of a defensive name, application to transfer the reservation of a name or the registration of a defensive name, or the registration of a company's name, or any other person with an interest in the name of a company, may apply to the Companies Tribunal in the prescribed manner and form for a determination whether the name, or the reservation, registration or use of the name, or the transfer of any such