Critical variables of venture turnarounds: a liabilities approach

M. Pretorius & G.T.D. Holtzhausen

ABSTRACT

Potential failure is a threat that businesses face during any stage of their life cycle, while turnaround from decline is essential to protect them from failure. The scientific literature on turnaround focuses on both strategy and process. This study's line of enquiry firstly reviews the documented research (both theoretical and empirical) encompassing the phenomenon on 'turnaround'. The methodology applied is fundamentally based on an in-depth literature review and grounded theory, with a focus on classifying the relevant liabilities identified. Despite the uniqueness of each situation, the results suggest, firstly, that successful turnarounds are dependent on overcoming some universal liabilities. A conceptual framework is then proposed for liabilities associated with the turnaround situation. Secondly, the results suggest that the odds of a successful turnaround are stacked against the turnaround manager. Successful turnaround depends on an integrated approach to overcome these liabilities. Finally, the skills of the turnaround manager depend heavily on leadership and strategic management abilities, and less on accounting and legal skills. This suggests the need for future research to investigate a team approach to supporting the turnaround manager.

Key words: recovery, turnaround, liability

INTRODUCTION

Turnaround situations have become a potential threat for most business ventures at some stage in their life cycle. Some ventures experience traumatic processes, while others change direction successfully with less pain, depending on where

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they hover between the extremes of the success–failure continuum. When closer to failure (distress, crisis or dissolution), the turnaround interventions differ in severity compared to those closer to the successful end state (under-performance or decline). Each turnaround situation therefore has a unique set of preconditions that serve as a barrier to be overcome (Ooghe & De Prijcker 2008: 224; Pretorius 2006: 12). The decisions that ventures are faced with and the potential consequences of failure have significant and interesting impacts on business decisions (Crutzen & Van Caillie 2007: 2; Cybinski 2001: 31). Chapter 6 of South Africa's proposed Companies Bill of 2007, with its complicating effects, is now in the public domain for review. The appointment of a turnaround manager (supervisor) forms part of the newly proposed legislation.

The proposed Chapter 6 legislation draws mainly on existing legislation for Canada and the United States of America (USA) and to a lesser extent also on Australian experience. While not really part of this paper, a brief summary of the different contributions to the proposed South African legislation is given to contextualise it.

The USA and Canada seem to be at the forefront of turnaround legislation and models. In the USA, the well-known Chapter 11 proceedings are well debated and reported in the literature. The International Association of Certified Turnaround Professionalism, situated in Chicago, USA, is an international organisation dedicated to developing, monitoring and maintaining a programme for the certification of professionals that engage in turnaround. There are chapters of the association in various countries abroad, of which South Africa is one of the latest additions.

Chapter 11 of the USA's insolvency law (provides for a similar debtor-friendly approach, in which the courts appoint a trustee to draft a plan for the reorganisation or restructuring of the business (USA Bankruptcy Code of 2002, Section 1104). In the case of the USA, the appointment of a trustee is obligatory for all public companies. The main focus of the intervention, however, is that the trustee must develop a plan that is specifically designed to reorganise the business. Bankruptcy courts in the USA have frequently approved turnaround plans in terms of Chapter 11 proceedings.

The Canadian Bankruptcy and Insolvency Act of 1992 (Section 50.4(8)) also allows for a stay of proceedings (or a 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. The Australian legislation follows similar lines to the USA Chapter 11, but with subtle differences. Chapman (2003) criticises the relatively short period of one month availed to Australian companies to come up with a turnaround plan.

While the literature is full of suggested strategies to be employed during a turnaround (Robbins & Pearce 1992: 287; Pearce & Michael 2006: 203), it is silent on turnaround situation liabilities that describe preconditions to be overcome during turnaround. If such reporting exists, it is done sporadically and in isolation. As a result, entrepreneurs may embark on a process without grasping the realities of the situation. What exactly is a turnaround situation liability? What conditions are responsible for it? What key variables should be considered to overcome them? Finally, what general key knowledge and skills are required of the turnaround manager to overcome these liabilities? Should corporate and entrepreneurial ventures consider turnaround liabilities in the same way? Moreover, is it important to know the answer to these questions? There is a need to clarify these liabilities in order to understand what the newly appointed turnaround manager faces.

Our approach was to identify critical variables from the scientific literature on turnaround. Using the grounded theory approach to identify the variables, we then categorised them and finally identified the key liabilities of turnaround situations. A conceptual framework of the liabilities is then proposed, together with the knowledge and skills associated with successfully overcoming the liabilities of the turnaround situation.

Both researchers and practitioners need to understand the liabilities of the turnaround situation. This understanding will guide decision-making and judgement during the strategising process for successful turnarounds. Grasping how key liabilities of the turnaround situation impede decision-making and choice of strategy will better prepare the turnaround manager. Knowing the liabilities will give guidance on the skills requirements for a turnaround manager, which should help in the selection of such a person when necessary. The study proceeds by providing background on the turnaround concept and context, after which the methodology is described and the findings presented in a model.

BACKGROUND TO THE STUDY

South African business is supportive of the long-awaited business rescue legislation which, in appropriate cases, should provide the best possible outcome for all stakeholders in distressed businesses. Chapter 6 of the proposed Companies Bill of 2007 introduces, for the first time in the South African context, business rescue and the appointment of a 'supervisor' or, as used in this text, the 'turnaround manager'. The broad intention of this chapter of the act is to create a more conducive (debtor-friendly) environment for successfully achieving business rescues. Chapter 6 does have apparent shortcomings, which will open opportunities to capitalise on loopholes, as case law will not be in evidence for several years at least. It is therefore prudent

for a prospective turnaround manager to be cognisant of these opportunities and to accept the liability of these legal loopholes. Other role players are also influenced, as explained next.

Debtors, for example, can initiate a business rescue in terms of section 132, which requires, as a prerequisite for business rescue, the occurrence of an insolvency event or a belief that the company is, or may imminently become, insolvent. Initiation by a creditor in terms of section 134 merely means that an affected person may apply to court to place the company under supervision if an insolvency event occurs or it is believed that the company is, or may imminently become, insolvent. An area that needs to be clarified is section 132(1)(b), which requires, as a prerequisite for business rescue, an apparent 'reasonable prospect of rescuing the company'. Responsibility for determining the viability with regard to the 'reasonable prospect' will probably fall within the ambit of the supervisor.

Regardless of whether business rescue is instituted by way of resolution or by way of court order, the turnaround manager is appointed by the company (board). This aspect adds to the critical liabilities faced by the turnaround manager. The company may make an inappropriate appointment due to lack of knowledge of business rescue and available business turnaround skills, or purely due to a miscalculation of the real-time business problem. In a variety of case studies, the very reason that the company is in need of business rescue is mismanagement. It is therefore questionable whether existing management is really equipped to assume responsibility for the appointment of the supervisor.

There is no indication in Chapter 6 of what the prescribed or minimum qualifications of the turnaround manager referred to in clause 141(a) will be. As the company has to disclose the reasons for the appointment when it appoints a turnaround manager, there is no way for affected parties to ensure that the turnaround manager has the necessary qualifications and meets the other requirements for appointment until after he/she has been appointed.

The extent of the turnaround manager's duties is not sufficiently described in the Act; it is not clear whether the position of turnaround manager is a part-time or full-time position. Section 143(1)(b) of the chapter provides that the turnaround manager may approve or veto a 'significant management decision' taken by the board. In clause 130(1)(f), a definition of 'supervision' is given, but it merely adds to the ambiguity surrounding the role of the turnaround manager. The turnaround manager is tasked with all the critical decision-making.

METHOD OF REVIEW

The specific research need identified in this study is for better understanding and making sense of strategy, rather than prescribing strategy, although the two focuses

are related, and a large number of recent published works have been in the field of turnaround strategy. The methodology adopted in this study was selected, because primary data on turnarounds are limited (especially in developing countries), as failed firms disappear and successes are ascribed to the entrepreneur/manager or to leadership. Even when the failed attempts do speak out, such explanations are likely to contain self-reporting and retrospective reporting biases (Shepherd 2005: 126). Reports on successful turnarounds are often kept quiet too, as the detail mostly involves elements of competitive advantage.

Scientific resources from the ABI-Inform, Ebsco-host, Proquest, Blackwell and other databases were searched for titles published since 1985. The date was somewhat arbitrarily determined (but not necessarily adhered to) based on convenience, as this was the earliest date for which most databases had downloadable electronic titles, abstracts and full texts readily available. For apparently major works, the date was not a limitation, especially when an article was widely referenced. Age of publication was not considered important, but relevance and contribution to the body of knowledge of failure were paramount.

At first, a search for 'turnaround', combined with 'business', 'venture', 'firm' or 'organisation', was conducted. All searches were keyword based and narrowed down by using the different keyword variants identified during the process. As the articles (data) were obtained, searches were extended to include terms such as 'rescue', 'reversal', 'recovery' and more. The titles and abstracts of all articles were scanned, which led to a first complete reading of each article that was deemed to cover failure-related issues, similar to the method described by Forbes (1999: 417).

Second- and third-round searches were conducted using author names in addition to key words for cross-referencing. Thereafter, specific journals were searched. Key journals included, but were not limited to, the following: *Journal of Business Venturing, Entrepreneurship Theory and Practice, Academy of Management Review, Sloan's Management, Academy of Management Executive, British Journal of Management, Administrative Science Quarterly, Long Range Planning, Strategic Management Review, British Accounting Review, Organisational Science* and the *Journal of Small Business Management*. References of important articles were then searched and accessed to build up an extensive list of articles. Articles covering all turnaround-related terms were investigated to identify more references. These articles were then obtained, and the process was repeated to identify the key works referenced by the various authors.

After reading and analysing the abstracts of the articles, those papers that in fact represented turnaround-related issues, as we understood them, were selected. Each article was then assessed, and key concepts were identified and reported. Concepts

were categorised into sub-domains (categories) of turnaround-related issues and reported individually, with their specific contributions based on Corbin and Strauss (1990: 7). As the categories became clearer, each individual article was further explored for its key contributions. Initially rejected articles were then re-evaluated for potential contributions to the sub-domains, based on the new insights gathered through the process.

One of the principles of grounded theory research states the requirement for concepts to be repeatedly present in the new data (Corbin & Strauss 1990: 7), thereby leading to the identification of patterns and categories. Contextual implications are then considered in order to judge how variables manifest under different circumstances. During the process of grounded research, the researchers look for the conceptual linkages to use for categories. These steps were followed during the methodology, in which steps are repeatedly executed until the key constructs ultimately crystallise.

Eventually, a list of key references was assembled. The process of adding articles was never officially terminated, but drifted towards closure as no further 'useful new information' came forth, in accordance with the principles suggested by the grounded theory research process. This meant that the actual number of articles screened became less important than initially anticipated when embarking on the study.

Finally, a conceptual framework to classify the liabilities identified was proposed. Each article was scrutinised for confirmation of concepts, as well as additional concepts and variances under different conditions and contexts. The proposed model was repeatedly changed and improved as new information improved the understanding of the authors.

FINDINGS

An agency relationship exists whenever one party (the principal) delegates authority to another (the agent) (Combs, Michael & Castrogiovanni 2004: 910). Agency theory suggests that because agents are assumed to be self-interested and possess goals that diverge from the principal's goals, the principal must expend resources (agency costs) to ensure that the agent acts in its interests. In turnarounds, the board or shareholders normally appoint a turnaround manager as agent to introduce a turnaround in the ailing business venture. This study argues that the turnaround manager faces several key liabilities associated with the turnaround situation that should be overcome to be successful in rescuing the venture from further decline. The liabilities have a direct bearing on the decision-making of the turnaround

manager and therefore on the perceived results, in comparison with the agency costs, that the board considers as principal.

'Turnaround' is defined for use in this study as 'the recovering of a venture 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 or power distribution. The turnaround definition implies that a declining firm can be rescued, while a firm that has failed cannot. Judicial actions are often associated with failed firms but less often with those in decline or with very small ventures, which enter and exit informally.

The 'turnaround situation' refers to the point in time when a turnaround is required and the appointment of a turnaround manager or alternative leadership is considered. It is characterised by a combination of unique preconditions (internal and external) that threaten 'normal operations' and require a reorientation of positioning, strategy, structure, control systems or power distribution.

A venture experiences a 'liability' when it has to overcome a set of preconditions that limits its capacity to operate normally. Liabilities are situational deficiencies inherited from previous decision-making in the venture and are often referred to as 'past decision baggage' that the venture is committed to at the turnaround situation. Liabilities originate from the resource-based view (Thornhill & Amit 2003: 500) and stem from previously identified liabilities such as liabilities of 'newness, smallness, adolescence, obsolescence and senescence (choked by rules and regulations)', as described in the literature (Kale & Arditi 1998: 459; Shepherd 2005: 124; Stanworth, Purdy, Price & Zafaris 1998: 56; Zacharakis, Meyer & De Castro 1999: 2).

Six liabilities in facing the turnaround are discussed in further detail. Figure 1 shows a conceptual framework of the key liabilities that face the turnaround manager. While the framework is the result of the research process, it is reported at this early stage to assist the discussion of the various liabilities.

Liability of legitimacy

While boards normally appoint the turnaround manager as their agent, it should be acknowledged that the appointment could also be the result of the judicial process within the legal framework of the Companies Act (No. 61 of 1973, as amended by the Companies Amendment Act No. 20 of 2004, and as also provided for in the proposed Companies Bill of 2007). Nevertheless, the turnaround manager faces legitimacy issues with other stakeholders such as creditors, staff, labour, unions and suppliers, among others.

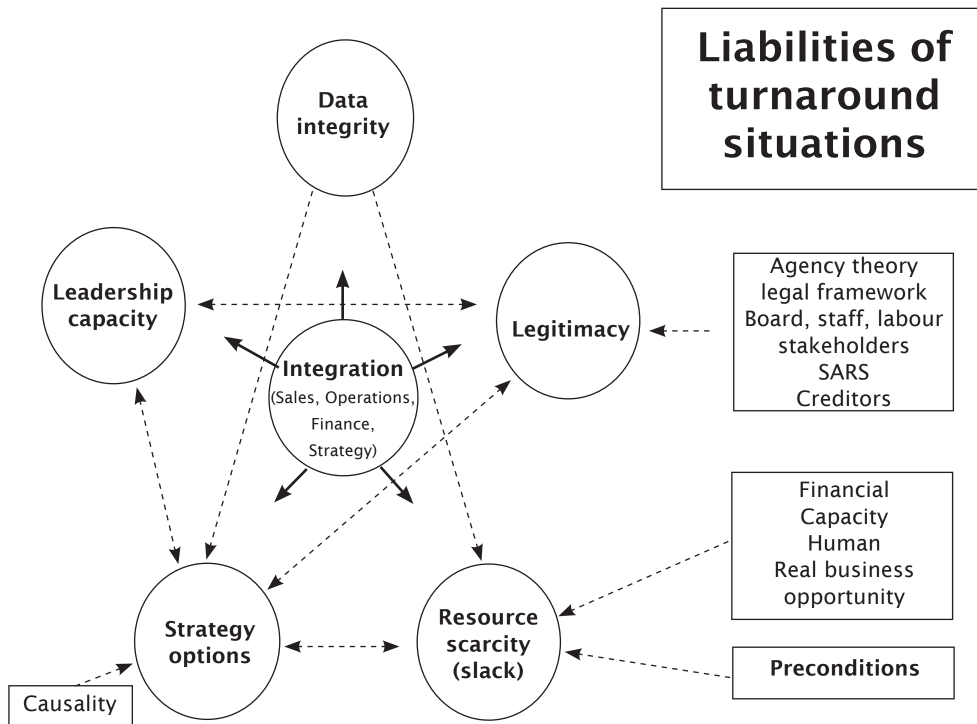

Figure 1: Conceptual model of liabilities of a turnaround situation as faced by the turnaround manager

Legitimacy is derived from the medieval Latin word *legitimare,* which is clarified by Lewis and Short (1975: 1047) to mean 'right, just, proper, appropriate, suitable, duly'. Legitimacy asks whether the turnaround manager is of the *perceived* capacity to successfully affect the turnaround, given his or her credibility, reputation, knowledge, skills, track record, ability to muster resources, acceptability as a representative to all stakeholders and more. Barker, Patterson and Mueller (2001: 239) use the term 'reputational slack', which explains this legitimacy as part of the resources available to the turnaround management of a venture. A condition of the legitimacy of the turnaround manager points to an element of 'exchange power' in which all affected parties (stakeholders) will support the appointee in exchange for economic prosperity and security. A further element required is 'integrative power', which is derived from loyalty. The locus of turnaround activity is spread through all affected parties. Employees stay in work, creditors are paid, and business contributes economically to the fiscus and society.

Legitimacy relates in large measure to the so-called 'soft issues' of a personal nature; someone could be knowledgeable and skilful and at the same time exhibit offensive behaviour and views that would make him or her an undesirable candidate to certain stakeholders. Different stakeholders would support different attributes, for example, creditors would value someone with business and financial know-how that they think could protect their interests; revenue services would value auditing qualifications; the board would value a successful turnaround track record; and labour would probably value someone with a pro-labour reputation.

If the turnaround manager is appointed from 'outside', it might aggravate the difficulty in achieving legitimacy, especially during the early stages. The way in which the turnaround manager is compensated may be perceived by some stakeholders as more than opportunity cost (quasi-rents), which may influence legitimacy perceptions negatively, making it harder to overcome another liability, namely, that of leadership.

The liability of legitimacy is complex but is a crucial liability to overcome for whomever is appointed to lead the turnaround. It influences, and is influenced by, both liabilities of leadership and strategic options. This liability is created by the turnaround situation and affects the appointment of either a turnaround manager or new leadership (a chief executive officer) assigned to face it. It is therefore a universal liability inherent in the turnaround situation. While the focus of this study is on the turnaround manager, it is also stated that the venture itself may face the liability of legitimacy. The perceptions of creditors, suppliers, industry competitors and customers may challenge the legitimacy of a venture to engage in normal operations in the future.

Liability of resource scarcity

Resource munificence is defined by Castrogiovanni (1991: 542) as the level of critical resources needed when operating the venture. Munificence thus refers to the level of resources (scarcity or abundance) required to operate the venture successfully. In this study, the focus of this liability is more on scarcity, given the contexts typically associated with turnaround situations. Turnarounds are mostly attempted during advanced stages of decline, such as distress, crisis or dissolution, and ventures typically experience exaggerated resource scarcity. Resource slack is arguably the key determinant of both decline severity and the options for turnaround strategies chosen in response. Also referred to as 'organisation capital' by Levinthal (1991: 418), munificence varies depending on previous decisions, organisational learning and history and is central to the severity of the preconditions governing the turnaround situation. Alternatively referring to it as 'level of free assets', Smith and

Graves (2005: 307) identify it as crucial in determining the success of turnaround interventions. Unabsorbed resource slack suggests increased ability to borrow funds and the ability to generate cash (liquidity) from the firm's assets (Barker & Moné 1998: 1231), which give firms the ability and time to respond through recovery strategies.

Levinthal (1991) refers to declining organisational capital as the important determinant of firm mortality. Failure will happen if the minimum threshold for organisation capital is not met. The level of firm resources at the time of the turnaround attempt affects the declining firm's capacity to implement strategic change. Maintaining adequate resources while responding to decline is often problematic, because the decline process destroys the firm's resources over time (Barker & Duhaime 1997: 20). Cressy (2006: 104) further measures the role of 'management human capital' as part of the resource capital, suggesting that there are several aspects to the construct of resource munificence.

Environmental munificence (capacity to accommodate firms) has particular relevance for decline (Castrogiovanni 1991: 543; Francis & Desai 2005: 1202), as it determines the strategic options to choose from. Environmental munificence plays an important role in the description of preconditions and the ability of a firm to recover from decline. The matching of resource and environmental munificence is part of the turnaround process.

Resource scarcity, although often incorrectly thought of as only financial in origin, is influenced by the other core principles. Pretorius (2006: 10) argues that the leadership and origin of the distress (whether strategic or operational) determine the resource slack. Resource scarcity appears at the heart of the liabilities faced by a venture in decline (Pretorius 2008).

While no single liability is more important than any other, all liabilities connect through resource munificence, whether directly or indirectly, making resource scarcity the main liability to overcome. The single most important liability that the turnaround manager must therefore overcome is the liability of resource scarcity. The turnaround situation implies limited slack, which restricts the strategic options available to choose from. By default, the turnaround manager must therefore gather information on the resources and analyse, evaluate and judge the resource situation. He has little control over this situation, but if capable would be able to observe potential opportunities to improve slack and create manoeuvring space to strategise. The liability of strategy options is explored next.

Liability of strategy options

The origin of the causes of decline and failure is often categorised as either strategic or operational in nature (Robbins & Pearce 1992: 626). The literature reasons that it is

easier for the business to respond to operational problems such as inefficiencies, cost relationships, incorrect resource applications and managerial deficiencies, as there is room to manoeuvre, and the contributing factors are more visible. In contrast, strategic causes relate to weak or incorrect positioning in the market, technological changes that govern demand determinants, and loss of competitive advantage by the venture – all of which are highly susceptible to external influences that are not clearly visible to the decision-makers. Strategic factors have a close relationship with the external environment and the firm's response to changes in that environment.

For a turnaround strategy to be effective in reversing decline, it has to address the declining firm's core problem (Barker & Duhaime 1997: 14). A broad simplification is therefore that if preconditions are strategically driven, the problem is more severe (and less control is possible), while it is less severe if it originates from operational weaknesses (in that more control is possible). The rationale is that operational preconditions can be corrected with relative ease and expectation of success, while strategic preconditions require directional change and high-risk expectations typically associated with new-venture creation. Poor choice of new strategy by the turnaround manager will therefore have a more severe impact on potential recovery than poor operational decisions will.

Environmental munificence will also determine whether certain strategies are viable, as 'unforgiving environments' such as economic downturns make it more difficult to achieve successful turnaround than beneficial environments, such as growing economies or operation in growth industries.

It therefore stands to reason that ineffective turnarounds often occur when management fails to successfully diagnose the causes of their firm's decline and respond inappropriately – for example, by trying to increase efficiency when the firm's weak strategic position is the cause of the problem (Barker & Duhaime 1997: 14) – or vice versa. This then points to the role of leadership, which is discussed as the next liability.

Liability of leadership

> Even the best strategy can fail if a corporation doesn't have a cadre of leaders with the right capabilities at the right levels of the organisations. (Author unknown)

Although in this text the focus is on the turnaround manager, the liability of leadership is also relevant for alternative leadership bodies such as the 'top management team', the 'new CEO' or the 'leadership team'. Probst and Raisch (2005) identify four elements associated with venture failure, one of which is leadership. The ability to change an organisation culture is closely associated with leadership.

While all three are 'soft' issues, it seems that the origin of decline (whether strategic or operational) lies, on the one hand, with the leadership's inability to adapt to change and, on the other, with its inability to create the necessary culture to support the strategy. Cannon and Edmondson (2005: 302) suggest that managers have an added incentive to dissociate themselves from the causes of decline, because most organisations reward success and penalise failure. Thus, holding an executive or leadership position in an organisation does not imply an ability to acknowledge one's own failure.

It has been said that it is almost always management problems that lead to business failure (Chowdhury & Lang 1993: 15, citing Boyle & Desai 1991, Dunn & Bradstreet 1984, Edmunds 1979, McGuire 1976; Longenecker, Simonetti & Sharkey 1999: 503), and this situation has not changed since the statement was first made. Collard (2002: 27) poses the question: If the leaders who were in power while the company's position was allowed to deteriorate are still there, why should the lender believe that they will now be instrumental in correcting the situation? This is indeed a question that highlights the leadership role of the turnaround manager. The literature on turnaround from decline abounds with the appointment of new leadership when a firm has been in decline. Barker et al. (2001: 237) report that replacement of the top management team is a core element in the turnaround process and term it 'top management team sweepout', while Castrogiovanni, Baligwa and Kidwell (1992) reason that CEO replacement should be used only in severe turnaround situations such as crisis or dissolution.

At the same time, Barker and Duhaime (1997: 13) report that turnarounds can stem from top management's implementing cutback or retrenchment strategies that increase efficiency, rather than from top management's substantially reorienting the declining firm's strategy. This confirms that the choice is solely dependent on leadership decision-making.

Chowdhury and Lang (1993: 9) further suggest, through threat-rigidity theory, that when management faces a palpable threat (in the form of a sudden crisis), it often freezes into inaction (experiencing cognitive rigidity), resulting in impaired decision-making that propels the firm into failure. This threat-rigidity theory is confirmed by Mellahi (2005: 264), while Barker and Moné (1998: 1228) postulate that leadership will tend to pursue more mechanistic strategies under pressure. Alternatively, they suggest that when faced by gradual decline, management fails to detect, or could even ignore and deny, the signs and causes responsible for it. This leads to preventative actions to counter such decline. It seems that both cases contain an element of managerial thinking at the origin of the action process required to turn around from decline.

It therefore appears that leadership is at the core of all decline and failure as cause and precondition, whether through leaders' ability or inability to respond to environmental change, adopt strategies and implement actions or decisions (non-actions and non-decisions) in response to the decline. Longenecker et al. (1999: 503) confirm the leadership liability when they identify 'failure at the top' as the main cause of failure in business.

The turnaround manager is often not the official leader but must enact many of the roles associated with the leader and influence the management team. The turnaround manager must therefore be able to influence leadership and management thinking within the company. Retrenchment is a crucial strategy, but in a world with high unemployment, staff retrenchment is seen as the last alternative available. The turnaround situation thus places additional pressure on the leadership ability of the turnaround manager. Thus, leadership ability and style that focus on creating support for the chosen strategies is the most desirable quality. The next requirement is the creation of a supportive environment in which those that remain must pursue the strategies. The considerations therefore go beyond business and management issues.

Liability of data integrity

Decision-making depends on quality of information. Data integrity refers to correctness, completeness, wholeness, reliability and truthfulness of the data available for decision-making. In the turnaround situation, data for decision-making are subject to misrepresentation, obscuring and suppression for several reasons. Examples include inflated debtors data to improve balance sheets, overestimated sales projections that inflate demand figures, manipulated inventory projections, overvalued assets, incorrect attributions of causes to protect positions, and withholding of certain information to protect vulnerable projects. While some of these cases may be intentional, there are also those that are unintentional and due to causes such as biases, heuristics or perceptive shortcuts.

Only a very small portion of all the data requirements for determining the turnaround situation is financial in nature and available through the standard statements. Much of the data are also subjective and opinion based, confirming its susceptibility to errors of human nature. The turnaround manager depends to a large extent on management to supply reports and data interpretations, which may well be subject to biases and other limitations.

Verification and authentication of data is a time-consuming process – and time is not abundantly available in the turnaround situation. The liability of data integrity

depends on the turnaround manager's ability to verify and authenticate data for decision-making. The complexity of data integrity is explored. Not verifying data regularly leads to assumptions and contributes to poor strategy choices.

Barker and Barr (2002: 963) report on the impact of the top management team as the key contributor to decline and failure if it fails to change strategies. Top management team cognitions are important influences on the decisions that affect the organisation's performance. These authors suggest that the way in which the top management team perceives the causes of failure determines the extent of its recovery actions. The turnaround manager is subject to these cognitions, as the top management team is a key source of information. The team may frame the requested information according to self-serving benefits or based on the members' specific knowledge structures, influencing the data integrity.

Leadership is further subject to heuristics and biases of subordinate management through overconfidence (Shepherd 2005: 125), escalation of commitment (Shepherd 2005: 129), risk perception and misconceptions (Le Roux, Pretorius & Millard 2006). These biases have led to leadership being nicknamed 'boiled, drowned or bullfrogs' by researchers (Bollen et al. (2005). Table 1 illustrates how data integrity is subject to these human errors, biases and heuristics. It suggests that data integrity is subject to human error, which influences the decision-making of the turnaround manager and confirms the ease of communication breakdowns. The turnaround manager must therefore overcome these elements by first identifying them and then acting accordingly. In each case, data integrity is undermined through the escalation of commitment bias, overconfidence, misconceptions and filtered data.

Liability of integration

Integration is best explained metaphorically. In an orchestra with different instruments, the piano cannot take the role of the flute or guitar, and individually they have limitations. However, when they are harmonised, they can create beautiful music. The conductor, who makes sense of the different elements and their roles, is able to direct them to play together successfully and harmoniously.

Overcoming the liabilities described so far requires an integrated approach to assimilate different strategies, activities and people in a holistic way so as to create 'critical mass' for the successful implementation of the turnaround plan. Integration requires a concerted effort to implement strategy through cost-cutting in operations and divisions, increasing sales, influencing and motivating staff to achieve goals, improving efficiencies, creating working capital, restructuring finance and more. Integration requires the ability to see the big picture and effect the detailed actions of the process at the same time.

Table 1: Heuristics, biases and thinking shortcuts associated with the liability of data integrity of the turnaround situation

Bias/ heuristic/ human error	**How it impacts on data integrity**	**Author**
Misconceptions	Tendency to overestimate demand, underestimate competitive response and underestimate resource requirements.	Le Roux et al. (2006)
Escalation of commitment bias	Tendency to support previous decisions made even if they contributed to decline.	Shepherd (2005: 129)
Self-serving bias	Taking credit for success and blaming others for failure, which influences how one identifies the problem and how information is framed.	Barker & Barr (2002)
Selective perception	Depending on previous experience of what works and ignoring signals that are 'off the radar'.	Barker (2005)
Illusion of control bias	The belief of management that they can control certain elements that are actually beyond their control.	Le Roux et al (2006)
Overconfidence	The belief of management that they can achieve results despite the viability showing otherwise.	Shepherd (2005: 129)
Paying too much attention to 'salient' data	Related to selective perception, with a focus only on salient, obvious and 'reliable' sources.	Barker (2005)
Problem framing	If preconditions are perceived as serious, the problem will be perceived differently, leading to selecting more aggressive strategies for turnaround. For example, if a less hostile environment is perceived, then the problem is framed with more slack on decision-making, and conservative actions are proposed.	Barker (2005)
Relying on filtered data	In trying to reduce information overload, the focus is more on reports and statements that only confirm the failure but do not show causes, especially financial statements.	Barker (2005)

A simplistic presentation of integration and overcoming the liabilities during the turnaround might appear as follows:

- Integration of the turnaround actions needs support from all stakeholders, thus overcoming liability of legitimacy.

- To assemble slack to free up working capital to fund the turnaround suggests partial achievement of resource munificence, which requires knowledge of cash-generating strategies (strategy options).
- Leading staff to implement plans on a wide front suggests overcoming the liability of leadership.
- Decisions of this nature depend on verification and authentication of data used in the decision-making process, suggesting overcoming the liability of data integrity.

DISCUSSION OF THE FINDINGS

Regardless of whether business rescue is instituted by way of resolution or by way of court order, the turnaround manager (supervisor) is appointed by the company. This aspect superimposes the critical liabilities of the turnaround manager as agent. The company may make an inappropriate appointment due to lack of knowledge of business rescue and available business turnaround skills, or purely due to a miscalculation of the real-time business problem.

The identified liabilities confirm that the turnaround manager faces a task of immense proportions. The knowledge and skills required to overcome the identified liabilities suggest that there would be very few individuals that have what is required for a successful turnaround. There is no indication in Chapter 6 of the proposed Companies Bill of what the prescribed or minimum qualifications of the supervisor referred to in clause 141(a) will be. As the company appoints the supervisor, without the need to disclose the reasons for the appointment, there is no way for affected parties to ensure that the supervisor has the necessary qualifications and meets the other requirements for appointment until after he or she has been appointed.

The extent of the supervisor's duties is also not sufficiently described in the proposed legislation; it is not clear whether the position of supervisor is a part-time or full-time position. Section 143(1)(b) of the chapter provides that the supervisor may approve or veto a 'significant management decision' taken by the board. In clause 130(1)(f), a definition of 'supervision' is given, but it merely adds to the ambiguity surrounding the role of the supervisor.

Table 2 therefore proposes some of the generic knowledge and skills that would be associated with successfully overcoming the identified liabilities. To find these knowledge elements and skills in one person is no easy feat and could be described as the first prize. Naturally, a team approach (second prize) would alleviate the burden of one person's overcoming all the liabilities. Teams, however, command higher rents (transaction costs), which would inherently aggravate the resource-scarcity liability and simultaneously the principal-agent problem.

Table 2: Knowledge and skills required to overcome the liabilities faced by the turnaround manager

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 and logistics Human resources Management Efficiencies and 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 and 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 complexity of the turnaround situation and the liabilities to be overcome by the turnaround manager open the proverbial 'Pandora's box' for different stakeholders. Banks, for example, may lose their power as primary creditor over decision-making in the venture within the new rescue legislation. New and innovate strategies are required to find flags that would warn companies earlier than the traditional 'early-warning signals' do in order to enable management to act proactively and eliminate turnaround situations completely. The liabilities suggest alternative roles, apart from that of a creditor, for banks to play, such as influencing the appointment of turnaround managers or radical strategies such as setting up units to fulfil these roles, at low agency cost, but possibly worth it by protecting their 'assets'.

CONCLUSION

The liabilities identified through this process are crucial for turnaround managers, irrespective of the country in which they face the turnaround situation. Given the dire lack of managerial skills in South Africa, the model gives the liabilities to be used as signposts for the newly appointed. The management implications motivate this conclusion further.

MANAGEMENT IMPLICATIONS

This study has specific implications for five groups: practitioners, boards, government, financial institutions and academics. Firstly, practitioners can use the liabilities highlighted here to improve their checklists and procedures to ensure that additional issues illuminated by this study are incorporated into their processes. Doing so would guard against oversight and protect them against personal liability and the argument of quasi rents (overly high agency costs). Secondly, boards that need to appoint turnaround managers could use the qualities highlighted as guidelines for the selection of suitably qualified individuals to lead their turnarounds.

Thirdly, government, as the legislator, could use the guidelines depicting the knowledge and skills required for a turnaround manager to guide the compilation of minimum requirements for such a role. There is currently a high level of speculation and jockeying by different organisations to influence minimum requirements for the appointment of turnaround managers, in order to ensure exclusivity to certain groups, such as chartered accountants. Based on the proposed model, this study has shown that financial skills are but a small segment of the knowledge and skills required for successful turnaround. This study, in fact, challenges some elements of the appointment of a supervisor as proposed in Chapter 6 of the rescue legislation.

Fourthly, financial institutions, as the primary credit providers, could benefit from this study, as it exposes several weaknesses of the proposed legislation with the potential to expose creditors' future actions. As key role-players (and stakeholders), these institutions could use the liability of legitimacy to protect their stake in turnaround ventures.

Finally, academics could use the liabilities to teach the complexity of turnarounds, as this study supplies research data in an area that is generally under-researched in South Africa. It is hoped that this study will stimulate further research in this field so as to build a body of knowledge for turnaround and strategic studies. Table 2 has already contributed to the framework of turnaround training courses at the University of Pretoria and should assist in the development of future courses.

STUDY LIMITATIONS AND FUTURE RESEARCH

The limitations of the study should serve as challenges for future research. Firstly, the grounded theory approach depends to some extent on the interpretation by the researchers and is therefore subject to their own biases and mental structures, as determined by their background and experiences. While every attempt was made not to fall into these traps, the researchers are still subject to this natural phenomenon. This, then, invites rigorous scrutiny by peer researchers.

Secondly, no empirical data are presented, although many of the articles used to support the concepts have a statistical foundation. The limited nature of data on this subject in South Africa eliminates this option to some extent, and in-depth research of case studies is proposed to find support for the different concepts.

Thirdly, given the key role of leadership, this aspect should be further explored. Questions that arise include: Are different styles of leadership prevalent during the turnaround? Does prior knowledge and experience of turnarounds have a role to play?

Finally, this study ventures to the frontier of conceptual research in this field. It thereby challenges other researchers to find support for the liabilities or to challenge their existence with primary data.

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