

INVESTIGATING EFFECTUATION THEORY APPLICATION IN PRACTICE WHEN EVALUATING A DISTRESSED VENTURE OPPORTUNITY

By

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DEDICATION

To my Dad, for always believing in me and reminding me that I am capable of achieving anything I set my mind to.

To my Mom, for always loving, encouraging and inspiring me.

To my little sister Magdaline, for being my little ray of sunshine and making me laugh even when the going got tough.

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ABSTRACT

Once appointed, business rescue practitioners (BRPs) and turnaround professionals (TPs) are faced with critical decision-making as to whether a distressed venture remains viable. A distressed venture opportunity (DVO) is judged by reasonable prospect (RP), which is subject to different perceptions, opinions and interpretations by BRPs and TPs. Effectuation is applied by experts to the entrepreneurial opportunity; however, the question arises whether effectuation (or its elements) can be applied to the distressed venture and its associated decision-making. The aim of this generic qualitative study was to investigate and explore effectuation theory application to the DVO. In total, the study had 20 participants from the Gauteng province. Within the group of 15 BRPs, there were 10 TPs and five BRPs from a liquidation and legal background. Additionally, five business rescue trainees were interviewed and the data were collected through semi-structured interviews.

The study revealed that all five effectuation principles are relevant to the DVO and both effectuation and causation are applied in a complementary manner and BRPs navigate between the two logics depending on the context. Effectuation principles are applied in the industry based on participants' perceptions and several factors moderating the inclination towards effectuation and/or causation were explored. Notably, effectuation principles inform the choice for reorganisation/better return than in liquidation (BRiL)/liquidation and the bird-in-hand and the crazy-quilt principles were identified as critical, having a strong relationship with RP.

Keywords: Distressed venture opportunity, Effectuation theory, Reasonable prospect, Decision-making, Opportunity, Business rescue practitioners, Turnaround professionals, Business rescue, Generic qualitative study, South Africa.

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LIST OF ABBREVIATIONS

BR	Business Rescue
BRiL	Better Return Than In Liquidation
BRP	Business Rescue Practitioner
BRPLL	Business Rescue Practitioner From A Liquidation And Legal Background
BRTs	Business Rescue Trainees
CEO	Chief Executive Officer
CIPC	Companies and Intellectual Property Commission
COVID-19	Coronavirus 2019
DVO	Distressed Venture Opportunity
DWAB	Do We Have a Business
NVO	New Venture Opportunity
PCF	Post-Commencement Finance
RP	Reasonable Prospect
SAA	South African Airways
TP	Turnaround Professional
Zol	Zone of Insolvency

CHAPTER 1: INTRODUCTION

1.1 INTRODUCTION

While we are free to choose our actions, we are not free to choose the consequences of our actions. - Stephen R. Covey

When turnaround professionals (TPs) and business rescue practitioners (BRPs) accept an appointment to oversee a distressed venture during business rescue (BR), they willingly choose to accept the tasks and responsibilities that come with it. However, they cannot choose how the process unfolds and predict the exact outcome of the rescue, as things may not work out as planned. TPs and BRPs are often faced with a challenging task and critical decision-making regarding whether a distressed venture opportunity (DVO) exists or not and this is generally judged by reasonable prospect (RP) (Janse van Rensburg, 2016:8). Courts require the RP determination for placing the distressed venture in BR in line with Section 128 (1)(b)(iii) of Chapter 6 of the Companies Act 2008 (hereafter the Companies Act). Similarly, creditors require the RP determination to support the rescue (through a vote) and commit to the provision of post-commencement finance (PCF). Thus, only financially distressed ventures (as per section 128 [1][f] of the Companies Act) that are assessed to have an opportunity can file for and commence BR proceedings (Conradie & Lamprecht, 2015:2; Gribnitz & Appelbaum, 2015:99).

Businesses can easily slide into the twilight zone or zone of insolvency (Zol) and move from a solvent operating position towards an insolvent position, wherein they are defined as distressed (Keay, 2015:1). Distressed ventures operating in the Zol are characterised by conditions of uncertainty and ambiguity, coupled with limited resource slack (which refers to the level of availability of a resource) (Guha, 2016:109). Amidst all this uncertainty, ambiguity and resource slack, BRPs and TPs must make a judgement on whether there exists an opportunity to save the distressed venture. A DVO is thus defined as an unexploited opportunity within a distressed venture which is found in an initial judgement by a BRP; this opportunity has the potential for a distressed venture to be reorganised towards a solvent operating position (Casson & Wadson, 2007:286; Sarasvathy, 2001).

Pretorius (2017:62) states that RP distressed venture could potentially be judged based on theory and criteria, similar to that of a new start-up venture in line with the venture capitalist perspective. That is, a business is functional when its business model is achieved within the resource munificence for potential actions in pursuit of an opportunity. The concepts for value creation in start-ups include the ability to sell, appropriate and produce products or services, being profitable and having the ability to finance operations which contribute to the eventual business model. Similarly, a distressed venture will require financial injection through which the question to be answered is whether there exists some potential for the venture to exist once the financial injection has been obtained (Pretorius, 2017:62). Pretorius (2017:62) further states that the key difference between start-ups (new venture opportunity [NVO]) and distressed ventures is that start-up ventures mainly depend on 'unproven' research estimates whereas with distressed ventures, there exists some history suggesting why things worked (or not) in the past. Regardless of this difference in terms of the availability of evidence for why start-ups work or not, the underlying principles when asking whether an NVO or a DVO exists (or not) appear similar.

Thus, to generate a theoretical understanding for evaluating a DVO, this study builds upon the theory of effectuation which was introduced by Sarasvathy (2001) as a decision-making logic for expert entrepreneurs in uncertain and resource-restricted market environments. Within the effectuation theory, expert entrepreneurs make use of resources within their control, together with commitments from stakeholders in developing new artefacts such as new businesses, markets and opportunities (Sabdia, 2014:17; Sarasvathy, 2001:245; Sarasvathy, Kumar, York & Bhagavatula, 2014:72). In its essence, effectuation enables entrepreneurs to recognise an opportunity and start up a new venture (Malik, Arshad, Khan & Saleem, 2020:264). The effectuation process begins when an entrepreneur is confronted with an uncertain and resource-restricted environment (similar to distressed environments) (Arend, Sarooghi & Burkemper, 2015:3). The next section provides a brief overview of the South African business rescue regime.

1.2 BRIEF OVERVIEW OF THE SOUTH AFRICAN BUSINESS RESCUE REGIME

This study intends to explore the application of effectuation theory to the DVO from a BR perspective. The South African BR regime came into effect on 1 May 2011 through the enactment of the Companies Act. Rajaram, Singh and Sewpersadh (2018:2) define BR in line with the Companies Act as measures aimed at facilitating the rehabilitation of

businesses faced with financial difficulties and thereby offering an alternative to liquidation. The Companies Act has further given birth to a new phenomenon, which is the BRP, facilitating the rehabilitation of a financially distressed company through the temporary supervision of the distressed company's affairs, the development and implementation of the BR plan and alternatively, a plan that would lead to a better return than in liquidation (BRiL) for creditors (Section 128 (1)(b) of the Companies Act). BR proceedings therefore offer a financially distressed venture with an opportunity to recover from temporary liquidity challenges and if possible, restructure it to continue as a going concern.

To commence BR proceedings, two requirements should be complied with in line with the Companies Act. The first requirement is that the company must be financially distressed, meaning that the company either appears reasonably unlikely to pay off its debts as they fall due and payable within the immediately ensuing six months or it appears likely that the company will become insolvent in the immediately ensuing six months (Section 128 [1][f] of the Companies Act). The second requirement is that there must be some possibility or likelihood that the distressed company can be rescued in line with Section 129 of the Companies Act. BR can therefore only be commenced on the basis that there exists RP for the company to be rescued from failure (Le Roux & Duncan, 2013:59).

BR proceedings can either be initiated voluntarily or by affected parties through a court order. Voluntarily BR is initiated by the Company Board of a distressed venture by way of a Board resolution (Conradie & Lamprecht, 2015:6). If the BR proceedings are commenced by the Board with reference to Section 129 of the Companies Act, the Board must have reasonable grounds to believe that the company is in a financially distressed situation and that there exists RP for the company to be rescued. Conversely, when the application is through a court order, the application should sufficiently justify that the company is financially distressed and that it will not be able to meet its obligations as and when they fall due. It is worth noting that in both cases, the existence of RP is a requirement (Du Toit *et al.*, 2019:2). Following the court's consideration of the application, a decision will be made to place the company in BR subject to requirements being met as stipulated in Section 131 (4)(a) or set aside the application in line with Section 131 (4)(b) (Conradie & Lamprecht, 2015:5). The next section lays out the main problem statement of this study.

1.3 PROBLEM DEFINITION

The judgement of a DVO largely depends on who makes that decision and that has often led to different interpretations, as BRPs and TPs rely mainly on their skills, opinions/intuition and experience (Janse van Rensburg, 2016:8). RP determination is required by courts to commence BR proceedings and creditors to support the rescue (through a vote) and commit to the provision of PCF. However, there exists no benchmark for practitioners to work towards, no prescribed process that can be followed nor a broadly accepted measurement or standardised tool to evaluate and quantify whether a distressed venture contains an opportunity (Du Toit *et al.*, 2019:9; McDonald, 2017:3;). As far as it could be determined, little is known about what practitioners use in the sense-making process of RP judgement and as such, research in this area remains scant (Du Toit *et al.*, 2019:8; Janse van Rensburg, 2016:8).

Therefore, opportunity judgement by venture capitalists is the crux of entrepreneurial start-ups; investment decisions and distressed ventures for a turnaround should inherently be considered as opportunities. Core to the NVO is the opportunity to be pursued, which is presented to the financier for funding. Similarly, the distressed firm is an opportunity that, when addressed by turnaround strategies, follows the 'same' trajectory as the start-up opportunity. Effectuation theory is applied by experts to the NVO and therefore the question arises whether the same (or its elements) can be applied to the distressed venture and its associated decision-making. As far as it could be determined, no study that could be found has explored the application of effectuation and its principles to the DVO. The purpose of this study is therefore presented in the next section.

1.4 PURPOSE OF THIS STUDY

This generic qualitative study aims to investigate and explore the application of 'effectuation theory' to the DVO. Effectuation was applied to inform practitioners (BRPs and TPs) for better decision-making when making the RP judgement, thus the study aims to understand whether effectuation principles are relevant to the DVO decision-making and if practitioners are applying these principles in practice. This study focuses specifically on BRPs (TPs and BRPs from a liquidation and legal background, namely liquidators and attorneys, referred to as BRPLLs) as well as business rescue trainees (BRTs) all based in the Gauteng Province

of South Africa. The data are collected through in-depth semi-structured interviews. The research questions that this study aims to answer are outlined below.

1.5 RESEARCH QUESTIONS

This study aims to answer several research questions. They are provided below.

1.5.1 Primary research question

The primary research question that this study seeks to answer is *Are effectuation principles relevant to the DVO decision-making?* To answer this research question, five secondary questions were identified, as shown below.

1.5.2 Secondary research questions

To answer the main research question, this study seeks to answer the following secondary questions, namely:

- What principles of effectuation are relevant to the DVO?;
- Are practitioners applying any of the effectuation elements in the industry?;
- If so, are they doing it deliberately/unknowingly/otherwise?;
- Could effectuation inform the choice for reorganisation/ BRiL/liquidation?; and
- Is there a relationship between effectuation principles and RP?

The next section presents the academic value and significance of this study.

1.6 ACADEMIC VALUE AND SIGNIFICANCE OF THE STUDY

Determining RP is a requirement by the Companies Act and RP must be considered for practitioners to establish whether to pursue reorganisation/BRiL/liquidation. The RP determination is, therefore, important because if there exists no prospect/opportunity for a distressed venture to continue as a going concern then liquidation should be filed for. That said, proper determination of whether an opportunity exists within a distressed venture is important as not all companies should be allowed to pursue reorganisation (Eow, 2006:300).

This study proves to be important in three respects. Firstly, this study adds to the limited theoretical knowledge of how BRPs and TPs judge DVO RP; previous researchers have

indicated that research in this area remains scant (Du Toit *et al.*, 2019:8; Janse van Rensburg, 2016:8). By doing so, it explains the sense-making process used by practitioners as well as the associated decision-making applied when evaluating a DVO.

Secondly, this study expands the application of effectuation theory to distressed venture environments as no other studies that could be found have applied effectuation in the context of distressed venture environments. Understanding effectuation (and its principles) and how it is applied by expert entrepreneurs in evaluating an entrepreneurial opportunity informs practitioners for better decision-making when evaluating a DVO. Effectuation also provides a useful lens through which practitioners may learn how to make informed decisions in uncertain and resource-restricted environments by applying principles of effectuation.

Thirdly, scholars have reported that in the BR industry, there is no broadly accepted tool/benchmark to determine RP (Janse van Rensburg, 2016:8; McDonald, 2017:3). That said, the application of effectuation and its associated principles supplemented using causal elements may serve as a benchmark which could inform the choice of reorganisation/BriL/liquidation. The application of effectuation and its elements may also enhance factual RP determination across various observers such as BRPs and TPs and potentially serve as a commence requirement by courts and creditors, ultimately increasing the chances of success for distressed ventures entering BR. The next section delves into the main theoretical perspective “effectuation theory” used in the study.

1.7 MAIN THEORETICAL PERSPECTIVE (EFFECTUATION THEORY)

To generate a theoretical understanding of a DVO, this study builds upon the theory of effectuation introduced by Sarasvathy (2001) who distinguishes between two contrasting logics of decision-making: causation and effectuation. Effectuation theory was introduced by Sarasvathy (2001) as an alternative to causal theories that were concentrated on a linear process regarding the identification of an opportunity, allocation of resources and the exploitation of an opportunity (Sabdia, 2014:15). Effectuation presents an approach to understanding the process of new venture creation under uncertain conditions by using the concept of decision-making logic (Sarasvathy, 2008). Effectuation is, therefore, defined as a decision-making approach utilised by expert entrepreneurs in dealing with problems in business environments filled with high uncertainty, sometimes in a situation where the

market does not yet exist (Duening, Shepherd & Czaplewski, 2012:213). In its essence, effectuation enables entrepreneurs to recognise an NVO and consequently start up a new venture (Malik *et al.*, 2020:264).

Effectuation accordingly assumes that under conditions of uncertainty, entrepreneurs adopt a different logic of operating when commencing a new venture, wherein entrepreneurial behaviour is based on resource availability in preference to predetermined objectives (D'andria, Gabarret & Vedel, 2018:19). By using effectual logic, expert entrepreneurs consider the resources at hand (those that are currently controlled) and make attempts to create a variety of successful outcomes in the future (Duening *et al.*, 2012:205). Effectuation is therefore characterised by i) using available resources; ii) the consideration of the affordable loss level; iii) an emphasis on partnerships and networks rather than conducting competitive analyses, and iv) the exploitation of contingencies through adaptability and flexibility (Sarasvathy, 2001:252). A brief overview of the methodology employed in this study is discussed in the next section.

1.8 RESEARCH METHODOLOGY

An overview of the research methodology employed in this study is provided here. The main research question that this study seeks to answer is *Are effectuation principles relevant to DVO decision-making?* In answering this research question, this exploratory study adopts a qualitative research design. The use of qualitative research is appropriate when a study is aimed at gaining a deeper understanding of phenomena in greater detail and depth considering the analysis of experiences, views and behaviours without any relation to the use of statistics, mathematics and numerical data (Quinlan, Babin, Carr, Griffin & Zikmund, 2015:125).

The most commonly cited philosophical assumptions are ontology and epistemology. Ontology relates to the nature of reality and has two philosophical positions, namely ontological objectivism and ontological constructionism. Epistemology studies the nature of knowledge and how this knowledge is acquired (Ragab & Arisha, 2018:3). Epistemology holds two philosophical positions (paradigms), namely positivism and interpretivism. Positivism relates to the assumption that because reality exists objectively and externally, the appropriate data-gathering process is to observe phenomena directly. Interpretivism, on the other hand, stresses the role that is played by human beings to understand the

phenomenon being investigated from their point of view in a manner that is subjective and empathetic (Holden & Lynch, 2004).

The results or outcome of adopting an interpretive philosophy is a better understanding of the phenomenon investigated. Given that this study is qualitative, this study adopts the interpretive paradigm to better understand the principles of effectuation that are relevant to distressed venture decision-making. The data are collected through semi-structured interviews with BRPs (TPs and BRPLLs) and BRTs. The ethical considerations of the study are presented in the next section below.

1.9 ETHICAL CONSIDERATIONS

This study has considered and upheld the ethical standards as outlined by Cooper and Schindler (2014). The researcher was committed to maintaining an objective view as well as minimising the possibility of bias and the misinterpretation of data. To ensure trustworthiness, the researcher adhered to specific criteria such as credibility, dependability, confirmability and transferability in demonstrating the quality and rigour of the study. These will be discussed in more detail in Chapter 5 of this thesis. This study adopts the monograph format and the outline of the overall thesis is presented in the demarcation of chapters in the next section below.

1.10 DERMACATION OF CHAPTERS

Table 1.1 shows the arrangement of the chapters in this thesis. It also details the primary research methods employed.

Table 1.1: An overview of the arrangement of chapters

	Subject	Method
Chapter 1	Reason for the study, the definition of the problem statement and the research methods employed	An introduction
Chapter 2	The distinction between the new venture opportunity and the distressed venture opportunity	Literature review chapter
Chapter 3	The theory of effectuation	Literature review chapter
Chapter 4	Exploring the applicability of effectuation theory in evaluating a distressed venture opportunity during business rescue	Literature review chapter
Chapter 5	Research Methodology	Methodology chapter

	Subject	Method
Chapter 6	Findings	Thematic analysis of the findings
Chapter 7	Discussion of the findings	Implications of empirical findings
Chapter 8	Summary of the main findings, theoretical implications, recommendations and conclusions	Conclusions

The reader must note that this research was conducted within a South African context and therefore authors from South Africa may appear to be referenced more regularly. In addition, M. Pretorius, a prominent scholar in the field of Turnaround and Business rescue may be cited frequently due to their contribution to the field.

CHAPTER 2: LITERATURE REVIEW A – DISTINGUISHING BETWEEN THE NVO AND THE DVO FOR DECISION-MAKING

2.1 INTRODUCTION

When fate throws a dagger at you, there are only two ways to catch it-either by the blade or the handle. – A Chinese proverb.

Faced with a distressed venture, sometimes referred to as a poisoned chalice, TPs and BRPs find themselves in situations where they must catch such ‘knives’ frequently, almost daily when they accept a rescue/reorganisation appointment (McCann in Pretorius, 2013:1). In today’s turbulent business environment, once dominant companies are now struggling to survive and firms are going out of business faster than ever before. The aftereffects of the Coronavirus 2019 (COVID-19) pandemic also exacerbated the situation, as the effects of the pandemic have left lots of businesses in distress, with some considering BR as a last resort. TPs and BRPs are, therefore, faced with critical decision-making regarding whether an opportunity to turn a distressed venture around even exists, as only distressed ventures assessed as having this opportunity (usually referred to as RP) can commence BR proceedings (Conradie & Lamprecht, 2015:2).

Depending on the nature and causality of the distress, BRPs must assess the strategies to be pursued which may entail either fixing the business or starting up a whole new business. Similar to an entrepreneur starting a new venture who assesses whether an NVO exists to pursue the new venture, BRPs must evaluate whether there exists an opportunity within a distressed venture. An NVO describes a situation in which goods and services, raw materials as well as organising methods can be sold at a greater value than their cost of production (Shane & Venkataraman, 2000:220). A DVO on the other hand defines an opportunity within a distressed venture which is generally described by RP – a value judgement that recognises the potential for a distressed venture to be reorganised towards a solvent operating position (feasibility of the rescue) (Du Toit *et al.*, 2019:1).

At the core of both the NVO and the DVO lies the “opportunity” to be considered; this refers to an unexploited project perceived by an observer which could provide some benefit and thus is worth pursuing (Casson & Wadeson, 2007:286; Sarasvathy, 2001). BRPs must ultimately choose between whether they are going to pursue the opportunity or not. In an NVO, entrepreneurs act under conditions of uncertainty, coupled with severe resource

constraints in bringing new, often-unrecognisable products and services (value concepts) to the market. Also, they must convince an unknown group of stakeholders to support their endeavours. Similarly, in distressed environments, especially when a venture has slipped into the Zol, BRPs must usually make the opportunity judgement daily under uncertain and ambiguous situations (McCann in Pretorius, 2013:1).

Distressed ventures are regarded to have relatively lower levels of resource slack compared to those operating on a solvent basis (Guha, 2016:109). Moreover, in a turnaround situation, stakeholders are an important consideration for the firm's survival as they often control the required resources and exert a certain level of influence over a firm (Trahms, Ndofor & Sirmon, 2013:1293). Pretorius (2017:62) argues that the key difference between start-ups and distressed ventures is that start-up ventures mainly depend on 'unproven' research projections. In contrast, with distressed ventures, there exists some history suggesting why things worked (or not) in the past. Regardless of this difference, in terms of the availability of evidence for why start-ups, the underlying principles when asking whether an NVO or a DVO exists appear similar.

Baird and Lorence (in Pretorius, 2018) argue that turnaround literature indicates that the judgement of a DVO by BRPs tends to strongly depend on the subjective thought processes that differ amongst individuals and consequently contribute to conflicts within the rescue industry. Moreover, practitioners are found to be very protective of the determinants/measurements they use, considering their intellectual property which is not shared openly. Practitioners have therefore been forced to make use of various types of analysis and processes in making the judgement regarding a DVO (Du Toit *et al.*, 2019:8). Distressed ventures for turnaround may inherently be considered as opportunities. Core to the NVO is the opportunity to be pursued, which is presented to the financier for funding. Similarly, the distressed firm is an opportunity that when addressed by turnaround strategies, follows the 'same' trajectory as the NVO.

Du Toit *et al.* (2019:6) postulate that the opportunity in an NVO is associated closely with the opportunity in a rescue and could inform the DVO. As far as it could be determined, no study provides a clear distinction between the NVO and the DVO. The contrast between the two may therefore fill the existing gap in the literature and more importantly, inform practitioners for better decision-making when evaluating opportunities in distressed ventures under uncertainty coupled with resource constraints. The distinction between the NVO and

the DVO may further assist in establishing the similarities and differences in the elements that exist and inform the types of opportunities available in distressed ventures. BRPs and TPs could benefit from the evaluation criteria/guidelines that can be used to evaluate the DVO using the new venture context as a set standard.

The purpose of this Literature Review A is to better understand the DVO relative to the NVO, to establish the similarities and the differences in the elements that exist between the two to inform BRPs for better decision-making. The next section of this literature review study explores the concept of an 'opportunity', which is dissected, as well as similarities and differences that exist between the NVO and the DVO. This is followed by a discussion on the risks associated with the NVO and the DVO. Lastly, the types of opportunities available in distressed ventures are explored.

2.2 OPPORTUNITY DISSECTED

The opportunity concept is generally associated with the entrepreneurial process of discovering, evaluating and exploiting opportunities to create new products and services (Shane & Venkataraman, 2000:218). An opportunity is defined as a project unexploited and perceived by an observer or individual that could provide a benefit. An opportunity is also described as the likelihood of meeting a market need/interest or wants by creatively combining resources in a way that ensures superior value is delivered to customers (Schumpeter, 1934). Thus, an opportunity describes a project that seems potentially worthy of pursuing (Casson & Wadeson, 2007:286; Sarasvathy, 2001). Casson and Wadeson (2007:298) state that an opportunity is only discovered on the basis that the project meets the set criteria that have been established by an individual for potential project success. Viability in a distressed venture as a commencement standard in BR is defined in terms of the probability of success predicted in reorganisation (Fisher & Martel, 2004:152). This concept is closely related to an opportunity and is defined in terms of the success probability predicted in reorganisation at the time of commencement. Similar to an opportunity, viability relies heavily on business intuition/perception (Rosslyn-Smith & Pretorius, 2018:41).

In BR, an opportunity is a term that is used interchangeably with the word "prospect", which is defined as "the possibility of some future event occurring"; however, in light of the Companies Act, the term RP is used (Joubert, 2013:554). RP's interpretation and meaning therefore suggests the RP of the company being rescued and the reasonable probability of

the company's ability to pay its debts and continue on a solvent basis (Joubert, 2013:554). This, therefore, suggests the likelihood of the existence of an opportunity to turn the distress situation around towards a going concern position. Going concern refers to a company's ability to sustain its operations over the long-run and thus indicating its capacity to avoid near-term bankruptcy and remain viable in the foreseeable future (Hidayah & Rachmadiyahana, 2024: 606). In literature, a venture capital investment is considered an opportunity characterised by a potential gain as well as a potential loss (Xia, 2012:39). Similarly, a distressed venture is regarded as an opportunity characterised by the potential gain to various stakeholders as well as investors when addressed by turnaround strategies but also a potential loss when a wind-down or liquidation is pursued. Sarasvathy and Dew (2005:143) postulate that an opportunity holds no meaning unless the actor acts in the real world within which the opportunity will eventually take shape. That is, without the nexus between the individual and the opportunity, most inventions would remain unutilised.

Timmons and Spinelli (2003:79-113) highlight that in order to determine the existence of an opportunity for conducting meaningful business, an opportunity analysis must be conducted. This analysis was originally conducted on new business opportunities exploring areas of opportunity where all business aspects are considered and viewed in unique ways, dividing all business operations into business model groups (Timmons & Spinelli, 2003:79). These are i) demand for the concept offering that should exist, ii) the team and resources, iii) profitability and iv) finance. Similar to an opportunity analysis is the concept of feasibility, which suggests that all elements needed for a potentially viable business should be present and if combined appropriately, a profitable business could be established. These elements typically include future demand, appropriation capacity (assets, resources and process) that enables the generation of an economically profitable model, cash generation as well as the non-existence of caveats (fatal caveats or constraints). The opportunity analysis further judges the potential of a proposed start-up venture through its feasibility. Using this analytical approach, wherein the same principles apply, the weakest link in the business chain can be identified and improvements can be made to achieve better returns or to determine RP (Du Toit *et al.*, 2019:6). The combination of these elements would imply that the project is feasible and thus an 'opportunity' exists.

Du Toit *et al.* (2019:6), therefore, postulate that the opportunity in an NVO is associated closely with the opportunity in rescue and may be able to inform the DVO. The question to

be answered at all phases of the turnaround is whether the distressed venture serves as an opportunity or not; if it does, the turnaround is well supported and refined through restructuring and reengineering. If the answer is no, a new focus should be chosen based on the correct strategy which may involve liquidation.

2.3 ELEMENTS OF NVO AND DVO

Shane and Venkataraman (2000:220) describe an NVO as a situation in which goods and services, raw materials as well as organising methods can be sold at a greater value than their cost of production. A DVO defines an opportunity that exists within a distressed venture which is an initial judgement by a BRP that recognises the potential for the venture to be reorganised towards a solvent operating position (Du Toit *et al.*, 2019:1). That said, the similarities (shared elements) and the differences (unique elements) between the NVO and the DVO are proposed in Figure 2.1 and explored in more detail in the section that follows.

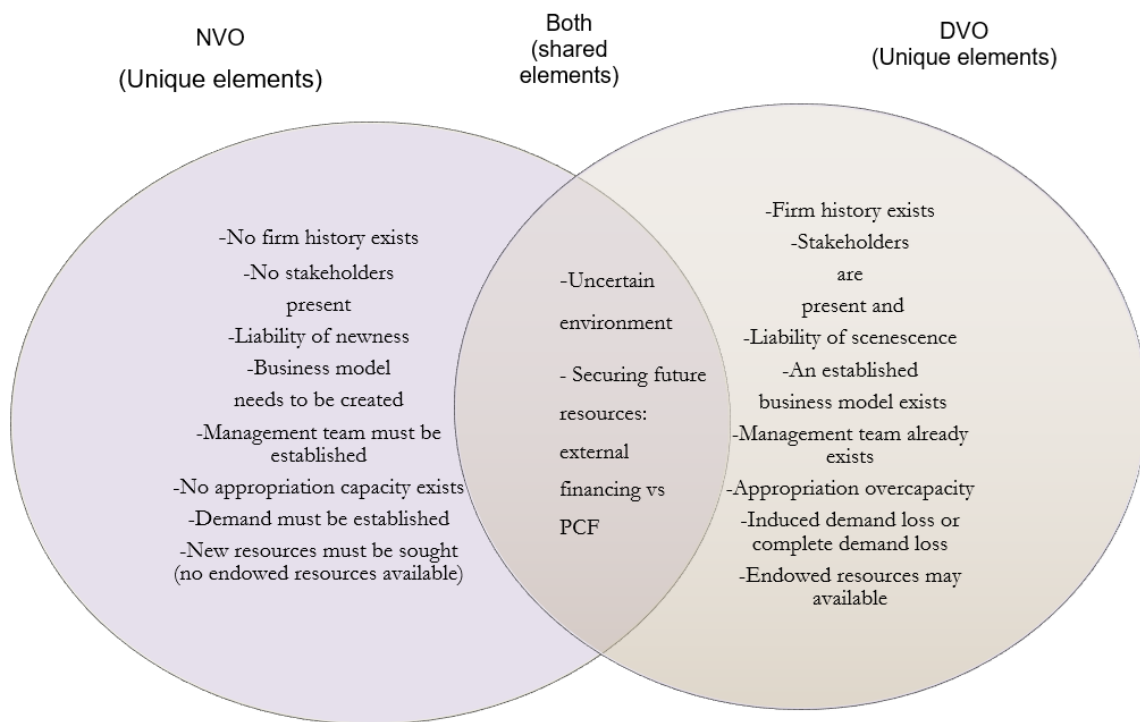


Figure 2.1: Comparison between the NVO vs the DVO (Author’s own compilation)

2.3.1 Differences (unique elements) between the NVO and the DVO

The NVO and the DVO are characterised by unique elements that distinguish these two types of opportunities from each other. These are explained in detail below.

2.3.1.1 Firm history

In new venture creation, there exists little to no history regarding the firm as it suffers from the liability of newness (Fisher, Kotha & Lahiri, 2016:383). As such, start-up ventures have no history of operations and thus rely mainly on projections that have not yet been proven (Fisher, Kotha & Lahiri, 2016:383). Moreover, new start-up ventures are faced with limited information, coupled with high levels of uncertainty as they confront situations wherein they try to establish themselves as organisations in the marketplace while there is a lack of records and knowledge about the business (Deligianni, Voudouris & Lioukas, 2016:350).

With distressed ventures, on the other hand, especially when BR has been filed for, Section 142 of the Companies Act stipulates that directors must submit all books and records in their possession to the BRP as soon as practicable after the BR proceedings have begun. With that in mind, in a DVO, there exists some information and history on why things worked or failed in the past. It is, however, argued that in distressed environments, BRPs are faced with the liability of data integrity as the venture's distress might be due to deeply-rooted operational problems that are not reflected in the records provided and thus the information provided may be inaccurate and often misleading (Bradstreet, Pretorius & Mindlin, 2015:35).

2.3.1.2 Demand for products

In an NVO, demand must be established; however, NVOs do not have existing customers and entrepreneurs must prove themselves to the marketplace (Xi, Block, Lasch, Robert & Thurik, 2020:800). Moreover, the products on offer are not yet recognised by the market, thus entrepreneurs must convince an unknown set of stakeholders, most importantly customers to try their products which will then induce demand (Fisher, 2020:2). An NVO is therefore characterised by uncertainties with regards to the market, as it must establish a customer base and demand (Deligianni *et al.*, 2016:350). Start-up ventures, in essence, must convince investors that they have real customers who are willing to buy their products (Cusumano, 2013:28).

However, in a DVO, especially where the venture experiences strategic distress or crisis, the venture generally experiences an induced loss of demand due to shifting customer needs caused by innovation, technology, alternative options and more (Pretorius, 2008:5). As such, it is argued that the biggest challenge that a distressed venture may face is convincing existing customers to continue doing business with the distressed firm (Rosslyn-

Smith, De Abreu & Pretorius, 2020:27). In distressed environments, it is often found that customers may shift their purchases to other suppliers in the fear that the quality of the product and the continuity of the supply may be compromised (Hertzel, Li, Officer & Rodgers, 2008:375; Sautner & Vladimirov, 2018:1). The withdrawal of customers from the firm may therefore translate into loss of sales and demand. Distressed ventures are thus characterised by demand uncertainties due to customer unpredictability, which often translates into complete demand loss or dwindling sales (Janse van Rensburg, 2016:73).

2.3.1.3 Appropriation capacity

Appropriation capacity is concerned with the ability to produce, access and source products or services in line with the business model's capacity (Timmons & Spinelli, 2003:79). The elements of capacity include facilities, finance, network capacity, tacit knowledge as well as human resources. The question at hand becomes whether the venture can deliver on existing demand and if so, at what level (Du Toit *et al.*, 2019:6). In an NVO, it has been established that the venture is faced with the liability of newness; as such, capacity elements must be sought as appropriation capacity would not exist in the early stages of the new venture start-up (Deligianni *et al.*, 2016:2). In a DVO, however (especially when the venture faces strategic distress) there exists appropriation overcapacity resulting in reduced profit margins as well as liquidity challenges due to declining demand (Pretorius, 2017:65).

2.3.1.4 Liability of newness vs liability of senescence

New ventures are confronted with the liability of newness because they are new, not well known nor understood or accepted; thus, they have a lesser chance of garnering acceptance or support and a greater chance of experiencing failure (Stinchcombe, 1965). The liability of newness, along the new venture's lack of familiarity and history of operations makes it difficult to access the resources needed to exploit the entrepreneurial opportunity (Fisher *et al.*, 2016:383). New ventures are regarded to be 'guilty until proven innocent', as most fail. To counter this, entrepreneurs seek to actively establish their legitimacy in the market (Fisher *et al.*, 2016:383). In a DVO, when the venture experiences strategic distress, the venture suffers from a liability of senescence wherein the product being offered may no longer be relevant. The liability of senescence suggests that older firms are more likely to exit the market as a result of obsolete technology, products, business concepts and strategies of management over time (Esteve-Pérez, Sanchis-Llopis & Sanchis-Llopis,

2010:284). Moreover, the liability of senescence describes the disadvantage that older organisations face when compared with younger firms, wherein these older organisations accumulate durable features (rules, routines and structures) as they age which may hinder their ability to act promptly in changing environments (Barron, West & Hannan, 1994:387).

2.3.1.5 Management team

In an NVO, the management team must be established. It is argued that an NVO is all about the management team (Picken, 2017:592). While much interest is on ensuring that there is some breakthrough realised with both the product to be offered and the untapped market opportunity, what is regarded as an essential element is having a good management team. A key consideration is therefore the presence of a management team that is suitably qualified and experienced to assist the entrepreneur in developing and exploiting innovative business ideas as well as finding solutions to problems (Chisi, 2013:159). That said, one of the critical tasks in an NVO is building the organisation and the management team and this requires more than just hiring people with the assumption that they are qualified to do the job (Picken, 2017:592). The demands and pressures of new ventures and organisations change and as a result, careful planning and flexibility are needed to ensure that the staffing structure employed is aligned to the needs of the new venture.

However, in a DVO, a management team usually already exists. Therefore, BRPs delegate duties to directors as well as to existing management, as they are in a better place to assist the BRP given that they may already be familiar with the operational side of the business (Kaudeer, 2016:10). Braatvedt (2014:23), however, argues that the problem in delegating powers and functions to any person who formed part of the Board or pre-existing management is that a BRP will be delegating what is a financial disaster to a person who might have been the cause of the demise of the company to begin with. However, it can also be argued that in most instances, the BRP cannot personally assume all functions of the Board and management and therefore there is a need to delegate some of these tasks (Vanderstraeten, 2016:16). That said, the difference between the entrepreneurial opportunity and the DVO is that in the NVO, the management team still needs to be established whereas in a DVO, there is an already existing team of management that the BRP works with and delegates some of the functions to.

2.1.3.6 Stakeholders

In an NVO, there exists little to no track record of existing stakeholders, that is, little to no track record of suppliers, banks and there are also very few or no customers lined up (Xi *et al.*, 2020:800). It is in this regard that to exploit an entrepreneurial opportunity, entrepreneurs must consider potential stakeholders that may have the required means and those that are willing to share in the risks of establishing the new venture (Read, Sarasvathy, Dew, Wiltbank & Ohlsson, 2017). A defining role for entrepreneurs is to establish trusting relationships with stakeholders who provide the resources needed for venture creation (Frese, Hass & Friedrich, 2016). Moreover, in an NVO, stakeholders are mostly drawn from less formal connections such as friendships, acquaintances and some other personal networks (Sarasvathy, 2001).

Pollack, Barr and Hanson (2017:15) argue that establishing trust must be examined in a different manner where new ventures are concerned, wherein neither resources nor relationships exist relative to established firms with existing relationships and resources. As such, in an NVO, multiple key relationships must be established and nurtured for the venture to initially emerge, survive and thrive (Pollack *et al.*, 2017:16). In an NVO, entrepreneurs seek first the initial engagement and building a relationship with various stakeholders. Stakeholder management becomes crucial as there are many relationships to be built with customers, financiers, and employees and each relationship is affected by the quality of trust (Pollack *et al.*, 2017). On a typical day, entrepreneurs must meet with prospective customers, send messages and make calls to financiers who may be interested in the venture and possibly interview new potential employees (Pollack *et al.*, 2017:18).

In a DVO, stakeholders already exist and the presence of different stakeholders and the management of these stakeholder relationships during the decline and turnaround of the venture are equally important (Ghazzawi, 2018). These stakeholders are creditors, banks, customers, suppliers and employees (Lusinga, 2019:91). When a company is experiencing decline and attempting a turnaround, stakeholders play a fundamental role in the recovery of the business (Trahms, Ndofofor & Sirmon, 2013:1293). Stakeholders have the necessary resources to control interactions and the flow of resources and they are most likely to naturally exert a strong level of influence on the firm's survival (Pajunen, 2006:1266; Rosslyn-Smith & Pretorius, 2018:96).

James (2016:493) indicates that, in most cases, it is expected that the relationship with stakeholders is in an already fragile state before the commencement of a turnaround and could take further strain once formal proceedings (BR) commence. That is, stakeholders react differently when a firm experiences financial difficulty and it therefore becomes increasingly important to manage stakeholder relations at all stages of the turnaround (Pandey, 2005). During distress, creditors become less tolerant and investors may avoid supplying additional capital to the distressed venture or resort to setting high costs with rigid terms and conditions (Vanderstraeten, 2016:2). Moreover, suppliers of the distressed venture refrain from granting credit due to fear (suggesting high sensitivity) that the firm may be liquidated and resort to supplying the distressed venture on a cash basis with payments made upfront (Vanderstraeten, 2016:2).

Managing stakeholder demands therefore becomes increasingly important in distressed environments when there's an increasing need for resources from various stakeholders at the time of the distress (Trahms *et al.*, 2013:1301). Identifying and influencing stakeholders that are critical to the survival of the business is important to any turnaround attempt given their potential to affect turnaround actions and subsequently, influencing firm survival (Trahms *et al.*, 2013:1301). The identity of crucial stakeholders depends on the distress situation, as well as timing and the stakeholder appointed as the new chief executive officer (CEO), consultant or BRP to oversee the turnaround (Harvey, 2011:28).

2.1.3.7 Business model

A boundary condition that exists in an NVO is that there is no business model yet, which could be used to look at customers, partners, costs and revenues of the business (Blank & Dorf, 2020). By definition, in an NVO, entrepreneurs start from nothing; they must find a functioning business model and also gain legitimacy with participants in the market (Xi *et al.*, 2020:801). In a DVO, there exists an established business model which needs to be assessed and checked to remain relevant and at times there might be a need to have it changed or amended (Janse van Rensburg, 2016:98). In distressed ventures, the business model may include new venture elements if the distress originated in the strategic domain.

2.1.3.8 Endowed vs new resources

Entrepreneurs in an NVO encounter severe resource constraints because of the liability of newness, as the business still needs to be established and new resources sought (such as

external financing) (Deligianni *et al.*, 2016:2). It is in this regard that in a new venture start-up, entrepreneurs employ the concept of entrepreneurial hustle as way to mitigate resource constraints (Fisher, 2020:16). With a DVO, there may exist endowed resources which are the resources that are left in the venture at the time of entering the turnaround situation. These endowed resources can be in the form of funds or cash available in the business (often exhausted during distress), human capital, access to networks as well as tangible resources such as a factory, buildings and other facilities within the venture. The endowed resources that may be available in a DVO are not available in an NVO.

2.3.2 Similarities between the NVO and the DVO

While there exist differences (unique elements) between the NVO and the DVO, there are shared elements that are evident in both these opportunities. These are discussed below.

2.3.2.1 Uncertain environment

In new venture creation, the environment is characterised by a high degree of uncertainty and ambiguity, preventing accurate predictions of future success (Mauda, 2016:9; Perry, Chandler & Markova, 2012:838). Much of the uncertainty results from contingency effects and the consequences that arise from the uncertainty imply that causal means-end connections beyond the short term are undefined. These include aspects such as uncertain demand, optimal choices of the business model, the technologies used and the resources which are *ex-ante* unknown (Arend *et al.*, 2015:5).

Similarly, in distressed ventures, the environment may be characterised by uncertainty and ambiguity, which is a context dimension for distressed ventures (Pretorius, 2018a:59). Uncertainties in distressed environments are influenced by both internal and external forces. Internal forces of uncertainty typically include changes in leadership (such as the appointment of BRPs or TPs), operating model change, job insecurities, culture changes and unclear roles and responsibilities (Govender, 2017:98). External forces of uncertainty include demand uncertainties due to customer unpredictability (Janse van Rensburg, 2016:73), competitor unpredictability, political instability, and technological uncertainties (disruption) which at times can be company specific (Govender, 2017:98). Uncertainty is further exacerbated by use of information that is subject to misinterpretations, suppressions and obscuring, which makes planning and prediction of future actions by practitioners difficult (Pretorius & Holtzhausen, 2008).

2.3.2.2 Securing future resources (External financing vs PCF)

In an NVO, there is a need to obtain external financing from investors to get the new business fully operational. Given the liability of newness that start-ups face and the need to ultimately prove themselves in the market, it becomes challenging for entrepreneurs to secure external financing. It is argued that many investors would want to know the projected growth potential of the start-up venture to generate enough cash to reach break-even and even be profitable (Cusumano, 2013:29). These milestones must happen in a consistent time frame before external funding becomes available.

Similarly, in a DVO, external financing in the form of PCF needs to be sought to successfully turn the distressed venture around (Pretorius & Du Preez, 2013:169). Similar to the challenges experienced by entrepreneurs concerning securing future resources in terms of external financing, acquiring PCF has proven to be a thorn during venture distress as investors are wary of the risks associated with investing their money in what has been termed a failing entity (Du Preez, 2012:6). When a venture is placed in BR, lenders become concerned that they may not be able to realise the returns on their existing investment which increases the difficulty in raising PCF (Davis, Cassim & Geach, 2011).

Table 2.1 provides a summary of the opportunity elements (similarities and differences) associated with the NVO and the DVO. The table summarises Sections 2.3.1 and 2.3.2 above.

Table 2.1: Venture opportunity elements associated with the NVO and the DVO.

Venture opportunity elements	NVO	DVO	References
Firm history	No firm history exists	Firm history exists	(Bradstreet, Pretorius & Mindlin, 2015:35); (Deligianni, Voudouris & Lioukas, 2016:350).
Demand	Predicted	Established (induced demand loss and complete loss of demand)	(Xi, Block, Lasch, Robert & Thurik, 2020:800); (Deligianni <i>et al.</i> , 2016:350); (Hertzel <i>et al.</i> , 2008:375; Sautner & Vladimirov, 2018:1); (Janse van Rensburg, 2016:73).
Stakeholders and stakeholder relations	No stakeholders present	Stakeholders are present	(Xi <i>et al.</i> , 2020:800); (Frese, Hass &

Venture opportunity elements	NVO	DVO	References
	(Relations to be established)	(Relationships uneasy)	Friedrich, 2016); (Ghazzawi, 2018); (Lusinga, 2019:91).
Business model	To be established (Untested)	Established business model exists	(Blank & Dorf, 2020); (Janse van Rensburg, 2016:98).
Liability of newness vs liability of senescence	Liability of newness	Liability of senescence	(Stinchcombe, 1965); (Fisher, Kotha & Lahiri, 2016:383); (Esteve-Pérez, Sanchis-Llopis & Sanchis-Llopis, 2010:284).
Management team	Management team needs to be established	Management team already exists; they are potentially contributors to the distress	(Picken, 2017:592); (Chisi, 2013:159); (Kaudeer, 2016:10). (Vanderstraeten, 2016:16).
Appropriation capacity	No appropriation capacity exists (needs to be created)	There exists appropriation capacity (potential over capacity)	(Pretorius, 2017:64); (Du Toit <i>et al.</i> , 2019:6); (Deligianni <i>et al.</i> , 2016:2).
Endowed resources	No endowed resources	Endowed resources exist (often exhausted)	(Deligianni <i>et al.</i> , 2016:2); (Fisher, 2020:16).
Future resources	External financing must be sought	External financing must be sought (PCF) to create new liquidity	(Cusumano, 2013:29); (Du Preez, 2012:6); (Davis, Cassim & Geach, 2011),
Uncertain environment	Entrepreneurs operate in an uncertain environment	TPs and BRPs operate in an uncertain environment	(Mauda, 2016:9; Perry, Chandler & Markova, 2012:838); (Arend <i>et al.</i> , 2015:5); (Govender, 2017:98); (Janse van Rensburg, 2016:73).

Source: Author's compilation

2.3.3 Risks associated with the NVO

In an NVO, risk is associated with the insecurity that arises because the success of market penetration is never guaranteed. As such, it cannot be determined in advance. Scarborough and Zimmerer (1996:51), argue that several risks may occur, as described below.

2.3.3.1 Time risk

Time risk involves taking and refining a new idea from scratch and seeing it through to the product development stage until such a point that it can be considered right for the market. As such, depending on whether an idea can be turned into a feasible opportunity that is right for the market, an NVO will not occur and thus the entrepreneur may suffer time risk (Scarborough & Zimmerer, 1996:51).

2.3.3.2 Investment risk

Investment risk refers to the cost of establishing a new venture and determining whether the entrepreneur can access enough capital to enable the venture to survive to the point of being a start-up venture. Entrepreneurs need capital to start a new venture; without this capital, the likelihood of failure is high (Scarborough & Zimmerer, 1996:51).

2.3.3.3 Technical risk

Technical risk is associated with all the technical aspects relating to the product development process to achieve successful delivery of a product that adheres to all technical quality standards (Scarborough & Zimmerer, 1996:51). Additionally, Picken (2017:594) asserts that technical risk is also associated with establishing whether the product to be offered to the market will work.

2.3.3.4 Competitive risk

There always exists the risk that competitors may develop the same or comparable products in the market. Moreover, the success rate of competitors in comparable markets may also indicate a risk to the entrepreneur in a new venture start-up (Scarborough & Zimmerer, 1996:51). Moreover, Picken (2017) argues that larger competitors that possess greater staying power may also try by all means to drive small competitors out of the market. The above-mentioned risks are therefore useful in informing whether the start-up venture serves as an opportunity, as success can never be guaranteed in advance.

2.3.4 Risks associated with the DVO

In a DVO, risk is largely associated with issues that may make the turnaround impossible. Thus, BRPs must make a judgement on whether there exists an 'opportunity' for the

distressed venture to be turned around, referred to as the RP. The risks are therefore associated with the distress, which Section 128(1)(f) of the Companies Act defines as when:

...it appears to be reasonably unlikely that the company will be able to pay all its debts as they fall due and payable within the immediately ensuing six months or it appears likely that the company will become insolvent in the immediately ensuing six months.

The nature of distress may be determined by its cause, origin, and severity, alongside the status of resources and the potential strategies that can be employed. As such, the nature of the distress determines whether the turnaround and thus the 'opportunity' may be realised. These characteristics of distress are therefore important to inform TPs and BRPs on whether the turnaround will be achievable, as discussed in more detail below.

2.3.4.1 The cause of distress

The cause of distress is associated with determining the factors that triggered and reversed the venture from operating as a going concern to the state of distress. There are two main causes of decline, namely internal and external (Bodolica & Spraggon, 2020:420). Internal causes of distress emanate from within the organisation involving the employees, functions as well as resources whereas external causes emerge from the interactions of a firm with its external environment. It is, therefore, important to understand the cause of the distress which led the venture into a hole, in order to implement a response that is geared towards the nature of the problem at hand (Chisi, 2013:16).

2.3.4.2 The origin of distress

The origin of distress determines its source and thus informs its causality. The origin of the distress is classified as either internal (operational or endogenous) or external (strategic, exogenous) (Chisi, 2013:16; Santana, Valle & Galan, 2017:207). Internal origin of distress, also referred to as firm-specific distress causes include factors such as high leverage within a firm, the inability of the company to operate profitably and overexpansion; these causes fall under management's influence and hence are regarded as internal (Schweizer & Nienhaus, 2017:24). Internal origin of distress also includes inadequate financing, a shortage in skilled labour, poor accounting records, poor internal management, and improper capital management (Memba & Nyanumba, 2013).

Financial distress is also attributed to poor corporate governance, wherein the Board may be ignorant of its oversight, strategic and monitoring roles (Liu, Uchida & Yang, 2012). It is, however, important to note that internal factors of decline are *ex-ante* defined (based on forecasts) rather than the use of actual results. Pretorius (2008:3) argues that it is much easier for a distressed firm to respond to internal causes of distress (inefficiencies, incorrect resource applications, cost relationship pressures) as there is more room afforded to manoeuvre and the factors contributing to the distress are more evident or visible.

Strategic causes of distress, on the other hand, originate from the external environment such as declining demand, increased competition, adverse macro-economic conditions, weak or wrong market positioning of a firm, loss of competitive advantage and changes in technological determinants that govern demand (Rico Llopis, 2018:58). External factors originating from the macro environment (high-interest rates, sudden technological changes or government regulations) are also strategic causes of distress that a firm has no control over. Trahms *et al.* (2013:1289) use the term “environmental jolts” to explain the sudden change in the environment in which the venture will be operating. COVID-19 is a good example of an environmental jolt, which has seen a lot of companies (South African Airways [SAA] and Edcon) with exacerbated challenges and thus being financially distressed.

2.3.4.3 The severity of distress

Achieving a successful turnaround depends on the severity of the distress. Schweizer and Nienhaus (2017) define severity as the degree to which a firm has declined. The severity level can range from a low level characterised by declining sales and margins, to a high level characterised by imminent bankruptcy (Pearce & Robbins, 1993). The severity of the distress therefore shapes the responses that a firm needs to take, given that the firm can determine the available slack to initiate strategic actions and also the time that a firm has to react to the distress (Tangpong, Lehmborg & Li, 2021). In situations where the level of severity is high, action must be decided with limited resources and as such turnaround response becomes limited (Schmitt & Raisch, 2013). It is, therefore, important to determine both the causes and the severity of the decline as they shape the effectiveness of the turnaround strategies to be implemented (Rico Llopis, 2018:72)

2.3.4.4 The status of the resources

Distressed ventures are characterised by a lower resource slack that often results in an attempted restructure or an involuntary closure of the business (Francis & Desai, 2005:1204; Guha, 2016:109; Rajaram, 2016). Resource slack is defined as the difference between total resources and total necessary payments; it is regarded as important during distress and a lack of resource slack may lead to severe venture distress (Daniel, Lohrke, Fornaciari & Turner Jr, 2004:566).

In most situations, distressed ventures lack the cash and/or assets that could simply be changed into cash that can be used in funding operations and these are directly associated with the significance of a turnaround success (Cassim, Cassim, Cassim, Jooste, Shev & Yeats, 2021:882). However, inadequate organisational slack creates a liability that threatens the firm's survival and ability to reorganise. If, at commencement, a firm is deadlocked with no available slack (current and in the projected future), this would constitute a fatal liability (Rosslyn-Smith & Pretorius, 2018:94). Distressed ventures need to determine the resources (endowed and future resources) that will enable the firm to overcome distress, allowing the venture sufficient time to react to distress (Francis & Desai, 2005:1207). The level of resources that a firm possesses during a turnaround attempt affects the distressed firm's capability to implement strategic change (Pretorius, 2008:3).

The absence of a BRP's ability and capability to determine the cause, origin and severity of the distress or the status of the resources will reduce their ability to turn a distressed venture around and there is a risk that the venture may end up in liquidation. It is, therefore, important to determine the strategies to be employed.

2.3.4.5 Potential strategies to be employed

Potential strategies to be employed refer to the interventions that can be used when pursuing the opportunity. Depending on the nature, causality and severity of the distress, the firm is presented with 'opportunities' such as operating and strategic actions. Trahms *et al.* (2013:1279) argue that operating actions (such as downsizing) for recovery should be pursued if the distress experienced by a venture originates from operating issues (internal). The authors further argue that if the distress emanates from strategic problems (external) (for example misalignment of firms with their environments), then strategic actions should be pursued (such as introducing new products to the market). Rico Llopis (2018:59) similarly

postulates that external causes require entrepreneurial actions, whereas internal causes call for efficiency moves to be implemented. Operating and strategic actions impact the opportunities available to BRPs and TPs to reverse the decline or distress situation. These types of opportunities are explained in more detail hereafter.

2.4 TYPES OF OPPORTUNITIES IN DISTRESSED VENTURES

In a distressed venture, there are different opportunities that BRPs and TPs can explore. Responding to distress depends on the cause of the distress as well as the time horizon, as described in previous sections (Arogyaswamy, Barker & Yasai-Ardekani, 1995; Ndofor, Vanevenhoven & Barker III, 2013). As such, depending on the nature, causality and severity of the distress, as well as the time horizon, BRPs and TP are presented with opportunities to fix the business (operational actions) and explore an NVO (strategic actions).

2.4.1 Operational actions (fixing the business)

When a venture experiences a decline as a result of operating issues emanating from its internal environment, operational actions (such as downsizing) are called for to reverse the decline (Trahms *et al.*, 2013:1279). The severe decline in venture performance calls for operating actions that provide a short-term response through retrenchment activities that offer a quick way to “stop the bleeding” and enable the venture to achieve positive cashflow (Arogyaswamy *et al.*, 1995; Pearce II & Robbins, 1993). The severity of the decline, therefore, informs whether cost retrenchment or asset retrenchment will be needed, with severe decline generally necessitating asset retrenchment (Trahms *et al.*, 2013:1279). Firms experiencing steeper declines have also been found more likely to pursue retrenchment actions as a form of triage (Trahms *et al.*, 2013:1295). Operating actions in turnaround tend to place more focus on actions associated with cost reduction to increase efficiency in operations and these often include asset and employee reduction (Ndofor *et al.*, 2013:1124).

2.4.2 Strategic actions

When a firm is in decline because it becomes misaligned with its environment, strategic actions may prove to be effective and offer an optimal response that enables the firm to adjust its product offerings and its functional strategies to realign with the environment (Abebe, Tangpong & Ndofor, 2021:18). Strategic actions therefore involve introducing new products to the markets, new market entry, engaging in strategic alliances, mergers as well

as acquisitions (Ndofor *et al.*, 2013:1124). Trahms *et al.* (2013:1288) suggest that strategic actions include new markets, acquiring new resources, repositioning products and down scoping. Pursuing strategic actions may be a midrange strategy response that can take several quarters or years to adjust the strategic posture (Abebe *et al.*, 2021:18). Pretorius (2008:3) postulates that a turnaround is much more achievable when the causes are internal and thus the distress is operational in nature. Trahms *et al.* (2013), however, argue that the effectiveness of operational and strategic actions may depend on several contingencies such as the available slack within a venture as well as the industry life cycle.

2.5 CONCLUSION

The evaluation of a DVO can be complex, especially in an uncertain environment coupled with limited resources. The judgement of RP within a DVO depends on whether a distressed venture contains an opportunity or not. Depending on the nature, causality and severity of the distress, BRPs must assess strategies that can be pursued which may entail either fixing the business (operational actions) or pursuing strategic actions which may involve pursuing an NVO. Similar to an entrepreneur starting a new venture who assesses whether an NVO exists to pursue the new venture, BRPs must evaluate whether there exists an opportunity to be pursued. As such, establishing the differences and similarities between the NVO and the DVO opportunities is important, as it may inform TPs and BRPs for better decision-making, especially if the cause of the distress is strategic, originating from the external environment which requires entrepreneurial actions. The NVO could therefore offer some guidelines and shed some light on restarting the business and bring about new hope for the venture.

The findings derived from the literature revealed that while there exist differences (unique elements) between the NVO and the DVO, there are overlapping elements that are present – thus, the two opportunities are not the same. Chapter 2 explored the distinction between the DVO and the NVO to establish the similarities and differences that exists between these two opportunities. The next chapter (Chapter 3) will therefore explore effectuation theory as applied in NVOs, the principles of effectuation theory as well as the questionability of effectuation theory based on the literature.

CHAPTER 3: LITERATURE REVIEW B – EFFECTUATION THEORY

3.1 INTRODUCTION

Sarasvathy's (2001) theory of effectuation has left its mark on the field of entrepreneurship. The theory was an attempt to describe entrepreneurs' mindsets and decision-making when starting new ventures and effectuation is used because strategic planning is not always applied by managers (Coudounaris & Arvidsson, 2022:3). In addition, the entrepreneurial environment is highly dynamic, unpredictable and ambiguous; information becomes scarce for entrepreneurs to use in recognising and evaluating opportunities before they can be exploited. Thus, the theory of effectuation has been proposed to explain entrepreneurial activities in these kinds of situations and environments (Fisher, 2012:1024; Sarasvathy, 2001). Effectuation theory was introduced by Sarasvathy (2001) as an alternative to causal theories, that concentrate on a linear process which identifies the allocation of resources and exploitation of the opportunity (Sabdia, 2014:15).

Effectuation presents an approach to understanding the process of new venture creation under uncertain conditions by using the concept of decision-making logic (Sarasvathy, 2008). The effectuation process begins when an entrepreneur is confronted with an uncertain and resource-restricted environment (similar to distressed environments) (Arend *et al.*, 2015:3). In its essence, effectuation theory is based on the logic that where the future can be controlled, there is no need to predict it. This is in contrast to causal logic, which states that where the future can be predicted, it should be controlled. This suggests that effectuation logic becomes more suitable when there exists uncertainty regarding the future. (Sarasvathy, 2001). Sarasvathy and Dew (2005) state that effectual decision-making allows entrepreneurs to be in a position to transform uncertainty into an opportunity.

As such, to generate a theoretical understanding of the DVO, this literature review builds upon the theory of effectuation introduced by Sarasvathy (2001) and their two contrasting logics of decision-making, namely causation and effectuation. Literature Review B aims to explore the literature that explains effectuation theory, the contrast between effectuation and causation, the principles of effectuation, and unpacking the questionability surrounding the development of effectuation theory.

3.2 EFFECTUATION THEORY

Effectuation is defined as a decision-making approach utilised by expert entrepreneurs in dealing with problems in business environments filled with high uncertainty, where a market may not even exist yet (Duening *et al.*, 2012:213). In its essence, effectuation enables entrepreneurs to recognise an opportunity (entrepreneurial opportunity) and consequently start a new venture (Malik *et al.*, 2020:264). Effectuation accordingly assumes that under conditions of uncertainty, entrepreneurs adopt a different logic of operating when commencing a new venture, wherein entrepreneurial behaviour is based on resource availability in preference to predetermined objectives (D'andria *et al.*, 2018:19).

By using effectual logic, expert entrepreneurs consider the resources at hand (those that are currently controlled) and make attempts to create a variety of successful outcomes in the future (Duening *et al.*, 2012:205). Effectuation is therefore characterised by the use of available resources, the consideration of the affordable loss level, emphasis on partnerships and networks rather than conducting competitive analyses as well as the exploitation of contingencies through adaptability and flexibility (Sarasvathy, 2001:252).

Effectuation further provides an explanation as to why expert entrepreneurs start new business ventures, which may not have been their initial goal (Matalamäki, 2017:4). The entrepreneur makes decisions on the specific actions to take based on what effects are possible given the available resources, considering contingencies, co-creator involvement, changes in aspirations as well as the additional caveat of a tolerable potential loss in invested means (Arend *et al.*, 2015:5). As noted in the introduction of this chapter, the process of effectuation begins when an entrepreneur is confronted with an uncertain and resource-restricted environment (similar to distressed environments) and also requires a decision to engage in the process which ends with the creation of a new market artefact, such as a successful venture (Arend *et al.*, 2015:5).

The logic of effectuation has been described as flourishing in an environment that is unstable and difficult to predict, thus allowing swift reactions to environmental changes (Sarasvathy & Dew, 2005). Due to the changing environmental circumstances, it is noted that continuous learning forms a part of effectuation logic that requires the company to change, learn and adopt new operating methods to respond to the changing situations (Sarasvathy, 2001). Considering this, entrepreneurs learn to think and act effectually and thereby increase their ability to create successful ventures by employing an effectual logic – this is the self-same

reasoning employed by expert entrepreneurs when pursuing an opportunity (Duening *et al.*, 2012:205).

Sarasvathy (2001) postulates that neither effectuation nor causation is better than the other; however, one would be more appropriate depending on the context. Thus, effectuation appears suitable and efficient under conditions of uncertainty coupled with the presence of scarce resources, while causation appears most suitable and adopted in a stable environment wherein expected outcomes are known beforehand (D'andria *et al.*, 2018:5). In addition, Fisher (2012) argues that both effectuation and causation can be used in a complementary manner and the entrepreneur may be able to navigate between both logics. This is a notion that is also supported by Sarasvathy (2001) and Ciszewska-Mlinaric, Obloj and Wasowska (2016:295), who do not deny that these two logics can be used at the same time. It is, therefore, in this regard that the entrepreneur must be able to have an understanding of which circumstances would be appropriate to develop either an effectual or a causal logic (Fisher, 2012; Sarasvathy, 2001).

3.2.1 Effectuation context (problem space)

Effectuation starts with a specific context, namely a domain consisting of two defining characteristics. The first characteristic is that an ambiguous and uncertain environment allows no future predictions to be made beyond the short term (Mauda, 2016:9; Perry *et al.*, 2012:838). Much of this uncertainty, which implies that means-end connections beyond the short term are undefined, results from contingency effects. These include aspects such as uncertain demand, optimal choices of business model, the technologies used and the resources which are ex-ante unknown (Arend *et al.*, 2015:5).

The second defining characteristic is that the resources available to the entrepreneur are significantly limited (Arend *et al.*, 2015:5). The use of the effectuation process therefore becomes appropriate if the entrepreneur has a generalised aspiration of building a successful venture with limited resources (Sarasvathy, 2001:249). According to Sarasvathy, Dew, Read and Wiltbank (2008:334), the effectual problem space is also characterised by environmental isotropy, which refers to the existence of ambiguity in determining which elements of the environment to pay attention to and which to ignore. That is, it becomes unclear which pieces of information are worth paying attention to. Similarly, the sense-making and judgement of a DVO is made in the Zol, characterised by uncertainty and

ambiguity which is a context dimension for distressed ventures (Lopes, 2020) Moreover, distressed ventures have relatively lower levels of resource slack (Guha, 2016:109) and decisions are made under conditions of information asymmetry and liability of data integrity (Pretorius & Holtzhausen, 2008:99). Effectuation theory can, therefore, be a useful lens for improving the understanding of DVO evaluation by BRPs and TPs.

3.2.2 Effectuation versus causation

As mentioned, Sarasvathy (2001:245) contrasts between the two types of decision-making logic, namely effectuation and causation. Effectuation focuses on the means at hand and pondering what effects may be created with those means (such as a successful venture) (Chandler, DeTienne, McKelvie & Mumford, 2011:377; Duening *et al.*, 2012:205; Kitching & Rouse, 2020:7). In contrast to effectuation, causation implies focusing on selecting a specific goal and thereafter predicting suitable means and associated actions for achieving the selected goal (Sarasvathy, 2008). This suggests that with causation, opportunities are identified first, followed by the decision to pursue and acquire resources for the identified opportunity (Fisher, 2012:1022).

Effectual entrepreneurs seek to control the current environment rather than predict the future when making decisions on a new venture and thus embody non-predictive forecasting contrary to predictive tools (Sarasvathy *et al.*, 2014:72). Effectuation is, therefore, consistent with an emergent strategy approach while causation is consistent with planned strategy approaches (Perry *et al.*, 2012). With causal logic, the outcomes must be predictable in such a way that calculations and statistics can be used to develop appropriate plans and analyses (Sarasvathy, 2001). Furthermore, when using causation, entrepreneurs analyse and engage in activities that allow them to exploit resources and their pre-existing knowledge (Hohdorf, 2021:9). Fisher (2012) suggests that the processes of causation are more likely to be used in exploiting existing markets characterised by lower uncertainty levels, whereas effectuation is most likely used in identifying and exploiting new market opportunities with high uncertainty levels.

Figure 3.1 below shows the effectuation strategy approach, wherein the process begins through means and various interactions with stakeholders and from that new means and goals could emerge (Dew, Read, Sarasvathy & Wiltbank, 2009). The major differences between effectuation and causation are highlighted thereafter in Table 3.1.

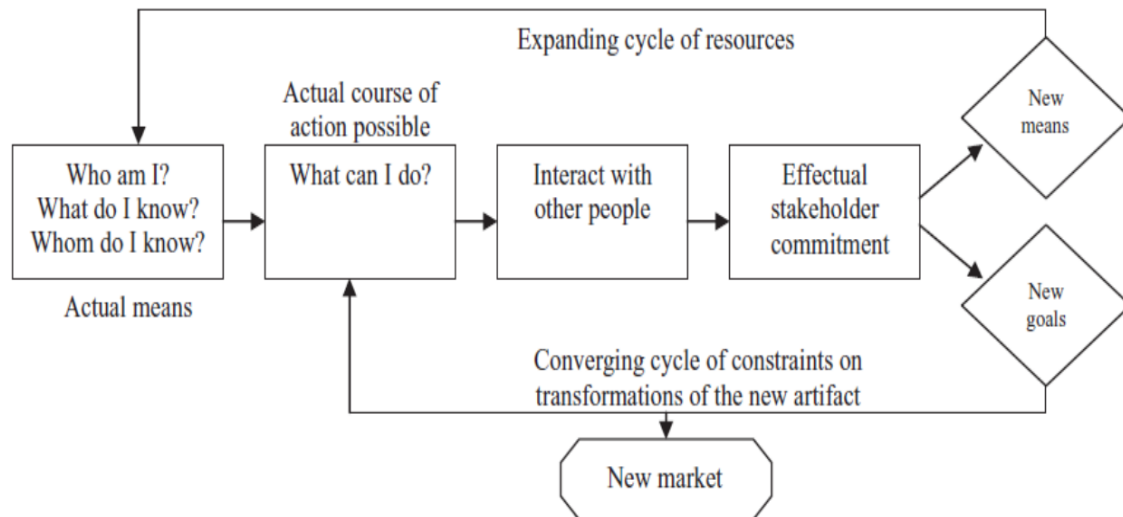


Figure 3.1: The effectuation strategy approach (Dew, Read, Sarasvathy & Wiltbank, 2009)

Table 3.1: Causal vs effectual thinking

	Causal thinking	Effectual thinking
View of the future	<u>Predictive</u> : The future is a perpetuation of the past and the logic of prediction is required and also useful.	<u>Creative</u> : Effectual logic and agents mould the future and predictions are not easy nor useful.
Basis for taking-action	<u>Goal-oriented</u> : Predefined goals determine action and are restricted by means. Ends-driven.	<u>Means-oriented</u> : Goals develop over time and are based on the means at hand and not vice versa.
Attitude toward risk and resources	<u>Expected return</u> : Maximum expected return is strived for.	<u>Affordable loss</u> : Focus is placed on curbing the downside potential.
Attitude towards outsiders	<u>Competitive analysis</u> : Desire to restrict competition and owner dilution.	<u>Partnerships</u> : Form alliances in co-creating the future.
Attitude towards unexpected contingencies	<u>Avoiding</u> : Cautious planning towards defined targets and contingencies are perceived as obstacles to be avoided.	<u>Leveraging</u> : Contingencies are perceived as opportunities to re-consider new possibilities

Source: (Sarasvathy, 2001:252).

The next section covers the principles of effectuation and these are contrasted with those of causation.

3.2.3 Principles of effectuation

Effectuation is built on five principles which encapsulate the full thrust of the theory; they also provide a theoretical perspective of entrepreneurs' actions and their associated thinking in the process of starting and creating successful new businesses (Sabdia, 2014:73; Sarasvathy *et al.*, 2014; Sarasvathy, 2001:252). Based on Sarasvathy (2001:252), the five principles of effectuation are described below and are contrasted with the logic of causation below.

3.2.3.1 Bird-in-hand principle

The bird-in-hand principle is the foundational principle of effectuation that delineates that entrepreneurs start with a set of means (resources) that are currently controlled and utilise those means in achieving a broader range of prospective goals which may be deemed a "success" (Duening *et al.*, 2012:20; Nguyen, Killen, Kock & Gemünden, 2018:1057; Sarasvathy, 2001:245; Sarasvathy *et al.*, 2014:72). In contrast, causation focuses on goal selection first which is followed by seeking to acquire the necessary means to achieve the selected goal. An entrepreneur following the process of causation begins with an idea of a business they would want to establish, develops a plan on how to go about it and subsequently finds ways in which to acquire the required means to start the business (Sabdia, 2014:16).

An entrepreneur using effectuation begins their entrepreneurial activity with no set goals or targets and instead seeks several possibilities that can be achieved as they take action (Magalhaes & Abouzeid, 2018:4). The entrepreneur uses the available means at their disposal and envisions the possible outcomes that can result from the means and actions. Effectuation is therefore means-driven rather than goal-driven (Sarasvathy, 2001:245). Reliance on means instead of ends motivates entrepreneurs to be accessible to new possibilities that arise, to make use of the capabilities they possess (Sabdia, 2014:9).

The bird-in-hand principle invigorates entrepreneurs to assess the resources at hand. These may include (but are not limited to) i) capital (comprising of cash and access to cash); ii) physical equipment; iii) specialised knowledge in particular industries; iv) talent and v) key insights into a specific industry (Duening *et al.*, 2012:208). Means available could also be in the form of financial support or slack resources such as skills or unused equipment (Nguyen *et al.*, 2018:1057). Duening *et al.* (2012), however, argue that expert entrepreneurs gather

additional resources to improve the venture's growth. Barney (1991:101) postulates that at an individual level, means at hand may include skills, personal knowledge and social networks. Sarasvathy (2001) describes this as entrepreneurs focusing on resources currently controlled by starting with who they are, what they are and whom they know in uncovering opportunities. At a firm level, the means include physical, human and organisational resources (Barney, 1991:101).

3.2.3.2 Affordable loss principle

Effectual entrepreneurs concentrate on what they can afford and are also willing to lose rather than predict what can be gained in the future or focusing on maximising returns; this is captured by the affordable loss principle (Berends, Jelinek, Reymen & Stultiëns, 2014:9; Sabdia, 2014:9; Sarasvathy, 2001:252). The focus on affordable loss eliminates the requirement of predicting what future returns will be, thus implying that there is less time needed in planning (Sarasvathy *et al.*, 2014:74). Decisions are therefore made considering the level of possible loss, ensuring that any loss encountered does not exceed the acceptable level (Berends *et al.*, 2014:9).

Expert entrepreneurs who adopt the affordable loss principle when creating or entering new markets keep control over risk (Sabdia, 2014:44; Sarasvathy *et al.*, 2014:74). Affordable loss is associated with reducing the risk associated with overspending and consequently minimising potential losses by reducing the risks of new venture creation (Deligianni *et al.*, 2016:3). Risk mitigation relates to how entrepreneurs minimise potential losses and reduce the risk of a new venture start-up (Sabdia, 2014:44). By eliminating the need of future returns prediction, the adoption of the affordable loss principle requires less time of planning (Sarasvathy *et al.*, 2014:74). Affordable loss is therefore calculated relatively quickly, given that the entrepreneur has knowledge of what is in the near environment and the estimations of how much can be lost.

By using the affordable loss principle, expert entrepreneurs can contemplate how to delay cash outflows and how to accelerate cash inflows (Read *et al.*, 2017:96). The affordable loss principle is therefore fundamentally based on things that are within the entrepreneur's knowledge and control and as such, their decision is guided by the ability to set limits to what can be affordably lost in the process of new venture creation instead of focusing on

future unpredictable probabilities. Failure is therefore made survivable and not catastrophic by constraining the loss to an 'affordable' level (Dew *et al.*, 2009; Sarasvathy, 2008).

Martina (2020:2) proposes that affordable loss presents an interaction between abilities and willingness, wherein loss aversion serves as a mechanism triggering the change from abilities to willingness. Given that in an uncertain environment, it becomes increasingly difficult to determine potential gains, willingness by entrepreneurs is enclosed as losses. Dew *et al.* (2009) postulate that the first component of affordable loss is 'ability', which refers to the size of what can be risked by entrepreneurs; it is the point of reference through which subjective assessments of willingness would then be undertaken. The ability component dictates the project or business venture that the entrepreneur can build/establish (it could include their initial set of choices) (Martina, 2020:3). The second component of affordable loss is the willingness of the entrepreneur to risk certain things in the process of making investment decisions (Dew *et al.*, 2009); this willingness is, at times, closely linked with the opportunity in which it is invested (Martina, 2020:4).

3.2.3.3 Crazy quilt principle

While effectuation favours building relationships and bringing self-selected stakeholders on board to co-create the venture together, causal logic puts more emphasis on competitive analysis to define the market, select market segments and thereafter use the specifications of the specific market in determining the stakeholders to be pursued (Dew *et al.*, 2009:293). Effectuation emphasises the formation of partnerships, building strategic alliances and acquiring self-selected stakeholders as a way of reducing uncertainty captured by the crazy quilt principle (Nguyen *et al.*, 2018:1058; Sarasvathy *et al.*, 2014:72).

Partnerships are crucial in expanding resources and the expert entrepreneur constantly engages with different people with the intention of co-creating the venture (Duening *et al.*, 2012:208; Sabdia, 2014:20). Partnerships enable higher future control levels wherein each partner contributes new means and opportunities to be combined in sculpting the future project; stakeholders can also provide information that reduces uncertainty and ambiguity (Nguyen *et al.*, 2018:1058). Self-selected stakeholders may result in added value by providing investment capital or contributing insights into a particular market, which could open new doors to potential customers (Duening *et al.*, 2012:208).

Effectual logic puts more emphasis on the cooperation of stakeholders to extend means and resources, reduce or divide uncertainty and obtain support for decision-making (Nguyen *et al.*, 2018:1058). Effectuation therefore focuses on establishing pre-commitments and alliances with suppliers, customers as well as other strategic partners as a way of spreading responsibility to other stakeholders and thus diversifying risk to curb potential loss, making it affordable (Chandler *et al.*, 2011:381). Chandler *et al.* (2011) argue that while entrepreneurs may build relationships, they should only invest in those relationships wherein both parties share downside risks in the event of failure and also benefit if the venture succeeds.

Continuous learning is another pillar of effectuation theory. Coudounaris and Arvidsson (2022:5) opine that as more knowledge is gained by firms, they tend to strive to see changes in their effectual networks. In other words, firms cooperate with anyone interested in the business at the beginning but as there is an increase in the understanding of the environment, firms become more selective of their partners. This suggests that as the firm evolves into mature stages, its network also changes; while an argument is made by Sarasvathy (2001) for effectuation, the author does not rule out the use of causation as a decision-making process as it is likely for firms to use a mix of both effectuation and causation (Coudounaris & Arvidsson, 2022:5).

3.2.3.4 Lemonade principle

The lemonade principle is grounded on an old age adage that states 'When life throws you lemons, make lemonade'. Effectuation employs a "learn as you go approach" and exploits contingencies as they arise while causation focuses on exploiting pre-existing knowledge as well as previous predictions (Berends *et al.*, 2014:8). That is, effectual entrepreneurs cope with what comes their way and learn to transform negative contingencies into new opportunities instead of making explicit efforts aimed at avoiding surprises (causal logic) (Dew *et al.*, 2009:293). Here, the attitude as well as the imagination of the entrepreneur play a role; imagination and satisfaction are also viewed as a precursor to successful entrepreneurship (Sarasvathy *et al.*, 2008). Since entrepreneurs operate in environments characterised by highly uncertain conditions, effectuation presents a benefit by embracing such surprises instead of following straightforward and goal-oriented processes aimed at avoiding deviations from the plan (Sarasvathy *et al.*, 2014:74).

Expert entrepreneurs become fully aware that adaptability is a fundamental characteristic needed to build a successful venture (Duening *et al.*, 2012:208). In other words, the expert entrepreneur also realises that being fixated on the use of original business models, or refusing to pay attention to changes in the market (such as low demand at price points or demand for improved product features), may prove ineffective. At the same time, the expert entrepreneur learns that there should be a justified reason for the need to change business strategies, once evidence of this need is further investigated (Duening *et al.*, 2012:208). An example of the application of the lemonade principle was demonstrated by the South African Airways, which had BRPs cancel all of its domestic routes in February 2020 except the Johannesburg to Cape Town route. This demonstrated flexibility and adaptability and was done based on valid reasons aimed at supporting the South African Airways' transformation into a sustainable, profitable business conducted in line with the urgent actions of conserving cash.

Read *et al.* (2017:140) postulate that entrepreneurs should be able to realise that contingencies on their own do not automatically shape the venture's future direction. Effectual logic thus suggests that contingencies may become a source of opportunities that create value only if the entrepreneur instrumentally grabs them, combining them with inputs that are extant in creating new possibilities (Sarasvathy, 2008). Entrepreneurs must be willing to change as they are faced with new information, surprises or means (Dew *et al.*, 2009). Contingencies may be in the form of meetings, people, events and new information and thus the environmental changes may provide new means to the entrepreneur that start the whole cycle of effectuation once more (Read *et al.*, 2017:140). The challenge for entrepreneurs is, therefore, to do something creative when faced with contingencies, such as to consider various solutions that have potential and change how the problem is framed. Real value is derived through the novel responses that entrepreneurs devise when responding to these contingencies (Read *et al.*, 2017:140).

3.2.3.5 Pilot-in-the-plane principle

The pilot-in-the-plane principle is grounded in the concept of control. There is a distinctive facet of control that exists in having no certainty regarding the future (Duening *et al.*, 2012:209). The aspiration to be in control of events within our environment is distinctly human; however, expert entrepreneurs believe that it is possible to control their futures most desirably by using effectual logic to control resources (Duening *et al.*, 2012:209). In other

words, expert entrepreneurs refrain from adapting to their environment (causation) but instead focus is placed on adapting the environment to them.

Effectuation thus seeks to control a future that is unpredictable while causation is set on predicting an uncertain future (Sarasvathy, 2001:252). By exercising control, decisions are made to facilitate future actions and through these actions, effectuation presumes that an opportunity may result (Dawa, 2018:37). Effectual logic processes that “to the extent that we can control the future, we do not need to predict it” while causation in contrast processes that “to the extent that we can predict the future, we can control it” (Sarasvathy, 2001:252). The contrast between effectual logic and causation may provide some perspective on the decision-making logic applied by TPs and BRPs when evaluating a DVO. The next section delves into the questionability of effectuation theory based on the literature.

3.3 THE QUESTIONABILITY OF EFFECTUATION THEORY

There is a conceptual debate amongst researchers of effectuation. The validity of effectuation as a theory is questionable and it is argued that the theory is underdeveloped and lacks empirical testing (Arend *et al.*, 2015:18). The same conclusion is shared by Perry *et al.* (2012), who state that empirical studies are lacking; this is a critical factor slowing down the development of effectuation theory. In addition, Pimenta, Azevedo and Pereira (2017) postulate that there has been very little progress in the development of effectuation theory, and it is important that its theoretical framework be further enhanced.

As it currently stands, the theory of effectuation is not yet regarded as matured, given the moderate consensus that exists among researchers and also because the theory is being primarily applied in smaller entrepreneurial firms (Coudounaris & Arvidsson, 2022:11). The major criticism of effectuation may be that presented by Arend *et al.* (2015), who argued that effectuation was established as a thought experiment where the precondition was already set that entrepreneurs were a group of individuals that were homogenous to a certain extent. Arend *et al.* (2015) argue that Sarasvathy (2001) omitted factors such as education, age, personal traits and others which may influence how an individual thinks and acts. In addition, the authors further argue that there are several missing elements such as contextual competition and other industry forces that are regarded as important. Thus, an underspecified rivalry becomes problematic as the success of a venture depends on the strength of competitive forces, therefore raising doubts about the validity of the model

presented by Sarasvathy (2001). Moreover, Arend *et al.* (2015) argues that means-driven action (using only the available means) is somewhat restrictive when imprecise, as it limits the entrepreneur from obtaining more resources or greater means. In addition, it is argued that there is no proof from effectuation literature or from other studies that entrepreneurs are not somewhat influenced by goals to pursue means (Arend *et al.*, 2015).

Arend *et al.* (2015) further argue and criticise that the logic of effectuation assumes that control is without prediction and the authors regard that as tenuous. It is argued that having control entails having the ability to predict the outcomes of the actions that are initiated under control. The same author highlights another assumption made by effectuation concerning the affordable loss principle, where the entrepreneur selects actions that will minimise losses by estimating the commitment of means in terms of the worst-case scenario. Arend *et al.* (2015) argue that minimising losses in environments that are volatile is not a new approach but rather a logic of options often employed by venture capitalists. In this regard, the author argues that effectuation does not consider options of leveraging the upside volatility explicitly in decision-making. Effectuation does not consider options that could be valuable in providing a more realistic description of the way entrepreneurs would think.

While criticisms exist, there is some consensus amongst researchers regarding the validity as well as the content of effectuation theory. If anything, there is consensus that the application of either effectual or causal logic is not static, even though this raises questions regarding the reason why and how the shift occurs to use either of the logics. Coudounaris and Arvidsson (2022:18) postulate that despite the differences in views among effectuation researchers, there still exists a gap to be filled for effectuation as a research field given that effectual behaviour is not necessarily expressed because a person is regarded as an entrepreneur due to personal as well as cultural factors. In addition, it is suggested that there should be attempts to try to understand the underlying reasons why a person has consciously or unconsciously chosen to adopt effectuation or causation in a particular context (Coudounaris & Arvidsson, 2022:18). Therefore, a need exists for future research in the field of effectuation, given that a clear scientific value exists in the theory which lacks empirical testing (Andersson, 2011; Randerson, DeGeorge & Fayolle, 2016)

It is important to note that while there exist criticisms in terms of the development of the theory alongside concerns on whether effectuation is a theory or not, the current study only aimed to contribute to the theory by applying the principles of effectuation to the DVO. This

was done in an attempt to understand the logic applied by BRPs and TPs when evaluating a DVO.

3.4 CONCLUSION

Effectuation theory is largely unknown in the context of DVOs. However, given that effectuation is applied by expert entrepreneurs to the NVO, BRPs and TPs that face complex and uncertain rescue and turnaround situations may learn and benefit from what expert entrepreneurs have learned working in such environments. The application of effectuation in an NVO suggests operating in an uncertain environment coupled with scarce resources. Effectuation theory can, therefore, be a useful lens for improving the understanding of how practitioners (BRPs and TPs) determine whether an opportunity within a distressed venture exists (or not) and thus the ability to re-create/re-start the business.

As already highlighted, the sense-making and judgement of DVO is made in the ZoI, which is characterised by uncertainty and ambiguity (Lopes, 2020). Moreover, distressed ventures are regarded to have relatively lower levels of resource slack compared to those operating on a solvent basis (Guha, 2016). That said, resource constraints coupled with the use of information that is subject to misinterpretations, suppressions and obscuring makes it difficult to plan and predict future actions by practitioners and thus, potentially make effectuation a fundamental tool for opportunity judgement and sense-making of a DVO. The next chapter (Chapter 4) will explore the applicability of effectuation theory in the context of DVOs. In doing this, this chapter will explore decision making in a business rescue context and the contextual background to distressed ventures. This chapter will also delve into the effectuation theory and how it is applicable in distressed venture environments and what makes effectuation an appropriate lens when evaluating DVOs.

CHAPTER 4: LITERATURE REVIEW C – EXPLORING THE APPLICABILITY OF EFFECTUATION THEORY IN EVALUATING A DISTRESSED VENTURE OPPORTUNITY DURING BUSINESS RESCUE

4.1 INTRODUCTION

As mentioned in previous chapters of this thesis, a DVO defines an opportunity within a distressed venture, generally judged by RP, which is defined as an initial judgement by a BRP that recognises the potential for a distressed venture to be reorganised towards a solvent operating position (feasibility of the rescue) (Du Toit *et al.*, 2019:1). An opportunity describes a perception formed by an observer that a project seems worth pursuing and that there may be some benefit over and above the costs associated with the perceived benefits (Casson & Wadson, 2007:298). RP is, therefore, the basis through which the BRP undertakes their appointment when the court places the distressed venture in BR (Janse van Rensburg, 2016:8). It is also how creditors can support the rescue through a vote and commit to the provision of PCF. BRPs must consider whether the rescue can be achieved in the traditional sense, which involves determining if the prospect should restructure the company to continue as a solvent entity (Vanderstraeten, 2016).

Applicants need to present the factual foundation demonstrating the existence of initial RP before the court, to begin the rescue process and ensure the continued existence of the distressed venture (primary objective) and to attain BRiL for creditors and company shareholders (secondary objective) (Section 128 [1][b][iii]). While the factual demonstration of RP is a requirement, the Companies Act provides no clear or concrete definition of the phrase “reasonable prospect” of rescuing a distressed venture (Joubert, 2013; Levenstein, 2016:308). For this reason, the definition of this term is open for judicial interpretation (Swart, 2014:408). In addition, Joubert (2013) highlights the different disputes found in court judgements creating much confusion and uncertainty on how judgements of RP were made and most of these judgements were rejected based on the lack of factual support for RP and thus ending up in liquidation. As a result, courts must decide whether a distressed venture will be placed in rescue based on BRP opinions and/or opposing views of different parties in court (Du Toit *et al.*, 2019:4). As such, factually determining the presence of RP as required by courts may remain problematic.

Section 141 (1) stipulates the requirements to identify the distress origin and the possible solutions for the distress. However, the section, most importantly, provides the RP requirements to turn the business around. It is, therefore, important for BRPs to understand the prevailing levels of distress within a distressed venture, to inform RP as not all companies should be allowed to pursue reorganisation (Eow, 2006:300). Section 141 (2)(a) stipulates that RP should continuously be evaluated throughout the BR/turnaround process given its dynamic nature and during any point in time, if BRPs believe that RP no longer exists, liquidation should be sought. Thus, the main question to be answered throughout the process is whether there still exists a business and thus the “opportunity”.

Making sense of the levels of distress is a major determining factor for the existence of RP in a distressed venture. The RP judgement tends to strongly depend on the subjective thought processes that differ amongst individuals and consequently contribute to conflicts within the rescue industry (Baird and Lorence in Pretorius, 2018). In addition, practitioners are found to be very protective of the determinants/measurements they use, considering them as intellectual property and are thus not shared openly (Pretorius, 2017:57). Exacerbating the challenges even further in the industry is the fact that data integrity is rarely guaranteed due to information asymmetry and the liability of data integrity (Janse van Rensburg, 2016:8)). Practitioners are, therefore, forced to make use of various types of analysis and processes in conducting their investigations regarding RP (Du Toit *et al.*, 2019:8).

Considering the challenges above, it is noted that as it stands there exists no prescriptive method, benchmark or broadly accepted tool for practitioners to use in determining whether an opportunity exists within a distressed venture (McDonald, 2017). The absence of this prescriptive method or tool has been found to cause conflict and ambiguity in the BR industry and as such BRPs rely on their skills, opinions and experience in making the judgement (Du Toit *et al.*, 2019:1; Janse van Rensburg, 2016:8). Levenstein (2016) postulates that the test for determining whether a distressed venture can be rescued is often a difficult task; if the venture appears unlikely to be rescued, practitioners should not accept the appointment and the Board should conversely place the company into liquidation.

The purpose of this literature review chapter is, therefore, to understand the concept of RP in BR and explore the application of effectuation and its elements to the DVO based on the literature. The next sections of this chapter explore decision-making in a BR context, the

contextual background of distressed ventures, effectuation is summarised and the conclusion follows thereafter.

4.2 DECISION-MAKING IN A BUSINESS RESCUE CONTEXT

In BR, a BRP is obligated by the Companies Act and holds responsibility for all the decisions that are made during the process and they are further obligated to take full management control in line with Section 140, which implies that they become the main decision-maker which can either be autocratic or democratic. The BRP makes all decisions as an officer of the court but does not bear any financial risk if the distressed venture is closed. In evaluating a BR event, key variables to be considered include the decision to pursue BR in the first place (Argenti, 1976). This is followed by the decision to control, which typically involves staff retrenchments (occurs in retrenchment actions) that need to be evaluated (Schmitt & Raisch, 2013:1218). Decision-making concerning daily operations is followed by the choice to pursue reorganisation or BRiL as an option. Subsequently, BRPs must make decisions regarding the protection of demand and respond to last-moment crises, omissions and mistakes which all complete the BR event decision evaluations during BR proceedings (Schmitt & Raisch, 2013). However, one of the most crucial decisions BRPs make regards the choice for reorganisation versus BRiL, as described below.

4.2.1 Decision-making regarding the choice for reorganisation versus BRiL

BRPs depend on their reputation for their next appointment and would therefore do anything to ensure that their names are protected in the industry. As a result, pursuing a BRiL as an alternative to pursuing a reorganisation is considered an easier option; it can even be used by incompetent BRPs using simple extended debt plans of restructuring or selling assets similar to those used in liquidation (Pretorius, 2016:489). It is, therefore, argued that BRPs who are opportunists will more likely pursue a BRiL rather than reorganisation as a way of pursuing profit for a prolonged period and thus benefiting financially (Levenstein, 2016; Lusinga, 2019:12).

Moreover, it has been established that banks typically associate the lack of turnaround intention with the choice to pursue a BRiL rather than reorganisation, thus equating this to the incompetence of BRPs although BRiL is an alternative BR outcome stipulated in the Companies Act. The consideration of BRiL as a success in the Companies Act is argued to cloud the perceptions of what reorganisation of a distressed venture is associated with

(Lebeloane , 2017). Banks are of the view that BRPs simply prolong the process, even when they know there exists no RP (as they also know it) and are thus perceived to be pursuing liquidation for the ‘underwriting fees’. The next section provides a contextual background to distressed ventures, delving deeper into PCF as a resource requirement and stakeholder dynamics during financial distress.

4.3 CONTEXUAL BACKGROUND TO DISTRESSED VENTURES

Businesses are expected to operate on a solvent basis and consequently have a perpetual life but in reality, this may not be the case as companies are more likely to fail under unforeseen circumstances (Wangige, 2016:6). This was evidenced by the COVID-19 pandemic that left South African companies such as Comair in financially distressed conditions, and also pinning final nails into already struggling South African Airways and Edcon coffins. The Companies Act defines a distressed venture as “financially distressed” which refers to a company that i) appears reasonably unlikely to settle its debts when they become due in the ensuing six months or ii) in the next six months, will seem likely to become insolvent (Cassim *et al.*, 2021:864). To determine whether a company is financially distressed, a careful examination should be conducted by the Board and, if necessary the company’s auditors, before making the judgement on the issue (Levenstein, 2016:8). In line with Section 129 of the Companies Act, once the Board determines that the company is financially distressed, creditors must be notified or pass a resolution to have the company placed in BR.

Distressed ventures are characterised by lower resource slack that often results in an attempted restructure or an involuntary closure of the business (Francis & Desai, 2005:1204; Guha, 2016; Rajaram, 2016). In most cases, these distressed ventures lack the cash and/or assets that could simply be changed into cash, which can be used in funding operations; these are directly associated with the significance of a turnaround success (Cassim *et al.*, 2021:882). Thus, inadequate organisational slack creates a liability that threatens the firm’s survival and ability to reorganise. A firm that is deadlocked at commencement with no available slack (current and in the projected future), would constitute a fatal liability (Rosslyn-Smith & Pretorius, 2018).

The level of the resources that a firm possesses during a turnaround attempt thus affects the distressed firm’s capability to implement strategic change. It is in this regard that when

a company recognises it is in danger of being financially distressed, it must respond immediately by taking corrective measures that will enhance efficiency and control costs (Koh, Durand, Dai & Chang, 2015:4). Distressed ventures take actions to improve the performance of the company in the form of turnaround strategies that are aimed at reducing costs; for example, employee layoffs, asset retrenchments, dividend cuts and implementation actions aimed at increasing revenue generation and debt restructuring, amongst others (Mbogo & Waweru, 2014:137).

4.3.1 Post commencement finance as a resource requirement

When a venture becomes financially distressed or over-leveraged due to reasons that are beyond its control, obtaining PCF becomes progressively challenging, if not almost impossible and this PCF is regarded as one of the important elements that determine business rescue success (Jijana & Chetty, 2015). The difficulty faced in acquiring PCF has often forced distressed ventures to resort to operating on a cash basis, facing the likelihood that the company may be liquidated or even forced to sell off some of its assets (Pretorius & Du Preez, 2013:169). Financial support thus becomes an important requirement to enable the rescue of the distressed venture (Calitz & Freebody, 2016:269).

Acquiring external funding (PCF) has proven to be a thorn during venture distress as investors are wary of the risks associated with investing their money in what has been termed a failing entity (Du Preez, 2012:6). Rescue finance creditors, financiers as well as banks are often hesitant to provide funding to a company that is undergoing BR proceedings yet this funding is critical for the distressed venture's survival (Cassim *et al.*, 2021:882). The sad reality is that PCF is not available when it is needed most and more so when creditors are also financially troubled themselves (Calitz & Freebody, 2016:269).

When a venture is placed in BR, lenders become concerned that they may not be able to realise the returns on their investment and thus the difficulty in raising PCF (Davis *et al.*, 2011). Creditors are found to generally prefer the certainty that comes with pursuing insolvency proceedings which facilitates the normative objectives that involve the equitable distribution of a debtor's assets where they are insufficient to meet various creditor claims (Kirshner, 2014:530). BRPs blame banks for being pro-liquidation and entering the BR process with pre-determined goals; banks blame BRPs for being incompetent, perceiving

BRPs' ability to navigate a successful reorganisation as suspicious and thus questioning when BRPs would realise the nonexistence of RP (Pretorius, 2014:327).

Obtaining additional finance is a vital corporate rescue effort needed to meet temporary trade obligations. This may include working capital requirements and also covering the costs of restructuring to allow the swift temporary recovery of the company's liquidity (Calitz & Freebody, 2016:269). It is, however, important to note that PCF funding extends from the short-term goals of the distressed venture to the long-term strategy that would be implemented to successfully turn the business around. That said, success in turnaround (more so in BR) seems to depend largely on the availability of PCF as a resource requirement. Additionally, the approval of the BR plan hinges on the availability of new finance (Du Preez, 2012:). That is, for the creditors to vote on the BR plan and be "sold on the plan", BRPs are required to obtain bridging finance to address the financial distress that led to the company filing for BR (Du Preez, 2012)

BRPs and TPs must therefore establish how much PCF or external funding will be needed, where it will be acquired and determine the accurate levels of available free assets within a distressed venture that can serve as collateral in raising funding to new creditors (Prior, 2014). Cassim *et al.* (2021:882), however, argue that distressed ventures placed under BR generally do not have cash or assets, therefore it becomes increasingly important to obtain some form of turnaround finance to reorganise successfully. Moreover, this funding must be obtained in the early stages of the process as this is directly linked to the turnaround success magnitude. Prior (2014:80) postulates that in most cases, a practitioner may have a sound BR plan but with no PCF on the horizon; the company might as well be put in liquidation as PCF remains a fundamental characteristic of commencing BR and for creditors to support the rescue through a vote.

4.3.2 Stakeholder dynamics during financial distress

Stakeholders play a fundamental role in the recovery of the business when a company is experiencing a decline and attempting a turnaround (Trahms *et al.*, 2013:1293). Stakeholders have the needed resources to control interactions and the flow of resources and they are most likely to naturally exert a strong level of influence on the firm's survival (Pajunen, 2006:1266). Managing stakeholder demands becomes increasingly important when there's an increasing need of resources from various stakeholders at the time of

distress (Trahms *et al.*, 2013:1301). This is because, during organisational decline where firm resources are being depleted, stakeholders become more sensitised to their claims on the distressed firm. As such, identifying and influencing stakeholders are critical to the survival of the business, given their potential to affect turnaround actions and subsequently, influence firm survival (Trahms *et al.*, 2013:1301). Who the most crucial stakeholders are depends on the distress situation, and the timing as well as the stakeholder appointed as the new CEO, consultant or BRP to oversee the turnaround (Harvey, 2011:28).

James (2016:493) postulates that in most cases, it is expected that the relationship with stakeholders is in an already fragile state before the commencement of the turnaround and could take a further strain once formal proceedings (BR) commence. That is, stakeholders react differently when a firm experiences financial difficulty and it therefore becomes increasingly important to manage stakeholder relations at all stages of the turnaround (Pandey, 2005). During distress, creditors become less tolerant and investors on the other hand avoid supplying additional capital to the distressed venture or resort to setting high costs with rigid terms and conditions (Vanderstraeten, 2016:2). Moreover, suppliers of the distressed venture refrain from granting credit due to fear that the firm may be liquidated and resort to supplying the distressed venture on a cash basis, with payments made upfront (Vanderstraeten, 2016:2).

Creditors play a significant role during the BR process due to their rights and ability to influence the process through their votes on the BR plan, as well as influencing other stakeholders through their decisions (Le Roux & Duncan, 2013:71; Lusinga, 2019:93). Secured creditors are even more powerful when compared with other stakeholders in BR, specifically banks – which hold the key to a successful rescue due to the resources they possess that can rescue a distressed venture (Decker, 2018:3; Le Roux & Duncan, 2013:62). Banks possess the ability to reorganise available strategies to BRPs, holding several ‘aces’ in the process. Pretorius (2016:493) proposes that banks should come up with ways of assisting BRPs to succeed in dealing with information asymmetry which may reduce the amount of time needed to investigate the affairs of the company and consequently reach the conclusion on whether there exists RP. It is, therefore, important for BRPs to focus on enhanced collaboration with banks, forging close relationships as far as the determination of RP is concerned.

PCF funders are also considered to be valuable stakeholders, providing the necessary finances to keep the distressed venture running and to allow for payments of debts when they fall due (Lusinga, 2019:56). PCF is obtained from various sources which may include secured and unsecured creditors, banks, shareholders and customers, amongst others; it is considered a valuable ingredient through which practitioners take the rescue appointment because without PCF, the chances of survival are almost zero (Lusinga, 2019:109). Equally important is the management of customer perceptions for maintaining the basic functions of the business, alongside human capital, which is crucial for a competitive advantage and improving employee morale in an environment faced with retrenchments and layoffs (Trahms *et al.*, 2013:1294).

Levenstein (2016) expounds that employees are the lifeblood of any organisation, especially one that is in a distressed position. For the company to stand a chance at survival, competent employees as well as management should be kept in the company during BR proceedings (Levenstein, 2016). While the success of BR and turnaround depends on the practitioner's ability to effectively cut costs (Vanderstraeten, 2016:3), managing stakeholder relations and expectations is equally important at all stages (Harvey, 2011:28; Trahms *et al.*, 2013:1293; Vanderstraeten, 2016:3).

4.3.2.1 Information asymmetry and liability of data integrity during Business rescue

BRPs are faced with a difficult task and crucial decision-making that could eliminate the distress that a firm faces while in BR (Janse van Rensburg, 2016:8). However, these decisions are made under conditions of information asymmetry and liability of data integrity. Data integrity alludes to how correct, reliable, complete, whole and truthful the data used in decision-making is (Lee, Pipino, Strong & Wang, 2004:89; Wang, Ziad & Lee, 2006:60). Before any questions can be answered regarding the origin or solutions regarding distress, and RP is evaluated, BRPs must work through various financial statements, management reports and other documents to make sense of the current distress situation a company is facing (Janse van Rensburg, 2016:16).

In BR, decision-making highly depends on the quality of information used and this has proven to be a challenge in a turnaround situation as the data is often subject to misinterpretation, suppression and obscuring (Pretorius & Holtzhauzen, 2008:99). Examples of these include i) inflated debtor's data; ii) sales projections that have been

overestimated; iii) overvalued assets; iv) information that is withheld in protecting projects that are vulnerable and v) decision-making from the past that is questionable. While some of these cases might be intentional, it is noted that some are unintentional as a result of biases, heuristics and perception shortcuts presented.

The liability of data integrity is dependent on the ability of the BRP to confirm and validate the data used when making decisions. However, verifying and validating the data may prove to be time-consuming – an asset that is not in abundance during a turnaround situation. The absence of data verification may result in assumptions and consequently, poor strategy choices (Pretorius & Holtzhausen, 2008:99). For distressed ventures, information asymmetry and data integrity may exacerbate the intricacy and uncertainty faced by TPs and BRPs when making decisions. Evaluating a DVO thus becomes more complex in an uncertain environment.

The previous section delved into decision-making processes involved in DVOs. The next section will explore the effectuation theory and its applicability in DVOs based on previous literature, as this also has an effect on decision-making.

4.4 EFFECTUATION THEORY SUMMARISED

As discussed in the previous chapter, this study built upon the theory of effectuation introduced by Sarasvathy (2001), who distinguishes between two contrasting logics of decision-making, namely causation and effectuation. Effectuation theory was introduced by Sarasvathy (2001) as an alternative to causal theories that focused on a linear process regarding the identification of an opportunity, allocation of resources and the exploitation of an opportunity (Sabdia, 2014:15). Effectuation is defined as a decision-making logic used by expert entrepreneurs in uncertain and resource-restricted market environments. Within the effectuation theory, expert entrepreneurs make use of resources within their control, together with commitments from stakeholders in developing new artefacts like new businesses, markets and opportunities (Sabdia, 2014:17; Sarasvathy, 2001:245; Sarasvathy *et al.*, 2014:72).

4.4.1 Applicability of effectuation in the context of distressed environments

Effectuation theory is largely unknown in the context of distressed venture environments. However, given that effectuation is applied by expert entrepreneurs to the entrepreneurial

opportunity, BRPs and TPs that face complex and uncertain rescue and turnaround situations may learn and benefit from their knowledge. The application of effectuation suggests operating in an uncertain environment coupled with scarce resources. Effectuation theory can therefore be a useful lens for improving the understanding of how practitioners (BRPs and TPs) determine whether an opportunity within a distressed venture exists and thus either re-create or turn the business around.

The sense-making and judgement of DVO are made in the Zol, which is characterised by uncertainty and ambiguity – the context dimension for distressed ventures (Lopes, 2020). Moreover, distressed ventures are regarded to have relatively lower levels of resource slack compared to those operating on a solvent basis and decisions are made under conditions of information asymmetry and liability of data integrity (Pretorius & Holtzhauzen, 2008). That said, resource constraints coupled with the use of information that is subject to misinterpretations, suppressions and obscuring makes it difficult to plan and predict future actions by practitioners and thus, potentially make effectuation a fundamental tool for opportunity judgement and sense-making of a DVO. Additionally, the need to continuously rely on stakeholders is important, which makes effectuation an appropriate lens for understanding the opportunity judgement within a distressed venture

4.4.1.1 Revisiting the effectuation context/problem space

Given that effectuation begins with a specific context characterised by both uncertainty and limited resources (Mauda, 2016:9; Perry *et al.*, 2012:838), these characteristics do not only typify the context environment for start-up entrepreneurs but also distressed venture environments. Uncertainties in distressed environments are influenced by internal and external forces. Internal forces of uncertainty typically include changes in leadership (such as the appointment of BRPs or TPs), operating model change, job insecurities, culture changes and unclear roles and responsibilities (Govender, 2017:98). There are also resource uncertainties such as uncertainty regarding the availability of PCF and ongoing sources of income in the distressed venture.

External forces of uncertainty include demand uncertainties due to customer unpredictability (Janse van Rensburg, 2016:73), competitor unpredictability, political instability, and technological uncertainties, which at times can be company-specific (Govender, 2017:98). Scarce resources in distressed ventures are generally characterised by complete demand

loss that leads to limited operations, declining market share, negative cashflow, appropriation over/under capacity resulting in severe liquidity challenges and declining profit margins, loss of stakeholder confidence and loss of valuable employees (Pretorius, 2008:66; Pretorius, 2017). Moreover, accessing new finance (PCF) may prove to be exceedingly difficult if not nearly unachievable (Du Preez, 2012). In addition, given that RP depends on the observer's view of the internal resources, this is associated with the foundational principle of effectuation, 'the bird-in-hand'.

Furthermore, there exists environmental isotropy, particularly concerning the information used in the RP of a DVO judgement which is subject to misinterpretations, obscuring and suppressions. This information needs verification and authentication (due diligence) which may be time-consuming yet time is very limited during BR proceedings (Pretorius & Holtzhausen, 2008). Given the time constraints coupled with the uncertainties, it becomes challenging for practitioners to determine which pieces of information or elements of the environment to trust or pay attention to. Furthermore, in distressed ventures, the overall goal is not envisioned and thus there exists uncertainty regarding how the turnaround will unfold, whether reorganisation/BRiL/liquidation will ensue and thus being means-driven rather than goal-driven. As illustrated above, distressed venture environments encompass the characteristics of the effectuation context/problem space.

4.4.1.2 Non-predictive control of BRPs and TPs

Effectuation introduces an alternative and feasible theoretical way of examining decision-making in distressed ventures by BRPs and TPs. This logic avoids the use of prediction and instead emphasises a more direct attempt at controlling uncertainty (Sarasvathy, 2001). In the context of distressed environments, BRPs and TPs are entitled to assume full management control of the distressed venture in place of the Board and management, in line with Section 140 (1)(a) of the Companies Act. By taking control, BRPs take charge of management, engage with structures of decision-making to establish authority, take financial control, meet with various stakeholders and also oversee day-to-day operations (Madigoe & Pretorius, 2022). By actively being involved in distressed ventures, BRPs intensify their influence and control to increase the likelihood of a successful turnaround. The aspect of control in effectuation is captured by the 'pilot-in-the-plane' principle, emphasising control rather than prediction.

4.4.1.3 Network dynamics

The need to continuously rely on stakeholders also makes effectuation an appropriate lens for understanding the opportunity judgement within a distressed venture. In a turnaround situation, stakeholders are an important consideration for the firm's survival as they control required resources and also exert a certain level of influence over a firm (Rosslyn-Smith & Pretorius, 2018:96). Practitioners, therefore, must consider existing stakeholders' willingness to be a part of the BR process (to vote in support of the BR plan), as postulated by Vanderstraeten (2016:2) and also provide PCF because, without it, the distressed venture perhaps belongs in liquidation (Prior, 2014:80). Moreover, by establishing close relationships with banks, BRPs and TP could obtain some information about the distressed venture which would reduce information asymmetry and liability of data integrity. Banks possess more financial knowledge (given their prior involvement with the distressed firm) and access to systems than BRPs do (Du Preez, 2012).

It is important to consider i) whether suppliers will continue supplying the distressed venture (Vanderstraeten, 2016); whether customers are still willing to buy from the distressed venture (Prior, 2014:53), and whether employees will ensure critical operations continue in the distressed venture (Lusinga, 2019:92). The consideration of various stakeholders is captured by the 'crazy quilt principle' of effectuation. Considering the application in distressed environments above, effectuation may serve as a good approach for decision-makers (BRPs and TPs) in coping with uncertainty, considering currently controlled resources, taking control, managing stakeholders, assessing what they can afford to lose in the process and thus possibly turning the distressed venture into an opportunity.

4.5 CONCLUSION

The evaluation of a DVO can be complex, especially in an environment that is uncertain and coupled with limited resources. Furthermore, DVO decision-makers are constantly faced with information asymmetry and the liability of data integrity during the turnaround process (Pretorius & Holtzhauzen, 2008:99). The judgement of RP depends on who you are which then determines whether a distressed venture serves as an opportunity or not. That is, different stakeholders, creditors and TPs/BRPs all have different judgements regarding whether an opportunity exists within a distressed venture and given the absence of a broadly

accepted tool or prescribed process to be followed in evaluating a DVO which is judged by RP, it is unclear what BRPs and TPs use in their decision-making process.

Given that effectuation is especially applicable in uncertain environments wherein the future cannot be predicted, the exact characteristics of objectives or goals are not known with any amount of certainty, and human action is the main factor that shapes the future (Sarasvathy *et al.*, 2008). As such, effectuation appears to be a good decision-making logic through which BRPs and TPs can decide if a distressed venture can be converted into an opportunity. The next chapter outlines the methodology that was employed in this study delving into the research design, sampling, data collection, recruitment, data analysis, ethical considerations, trustworthiness and the discussion schedule used in the study.

CHAPTER 5: RESEARCH METHODOLOGY

5.1 INTRODUCTION

An overview of the research methodology employed in this study is provided here. The main research question that this study aimed to answer was *Are effectuation principles relevant to DVO decision-making?* The methodology presented in this section therefore aims to outline the research methods used by the researcher in answering this question. This section briefly outlines the philosophical assumptions of the research methodology adopted and the research approach used in conducting the study in the form of the research design. This will be followed by the sampling approaches used, data collection strategies employed, data analysis performed and outlining how this study ensures trustworthiness.

The most commonly cited philosophical assumptions are ontology and epistemology. Ontology relates to the nature of reality and has two philosophical positions, namely ontological objectivism and ontological constructionism. Epistemology studies the nature of knowledge and how this knowledge is acquired (Ragab & Arisha, 2018:3). It holds two philosophical positions (paradigms), namely positivism and interpretivism. Positivism relates to the assumption that because reality exists objectively and externally, the appropriate data-gathering process is to observe phenomena directly. Interpretivism, on the other hand, stresses the role that is played by human beings to understand the phenomenon being investigated from their point of view in a manner that is subjective and empathetic (Holden & Lynch, 2004). Adopting an interpretive philosophy provides a better understanding of the phenomenon investigated.

This study was qualitative in nature and therefore the researcher adopted the interpretive paradigm to better understand which principles of effectuation are relevant to DVO decision-making. Moreover, the information on effectuation was based on the participants' points of view and the data was collected through in-depth semi-structured interviews using i) a developed research instrument and ii) a discussion guide (see Section 5.9). The next section details the research design of the study and the general approach or tools used in the study.

5.2 RESEARCH DESIGN

To explore whether effectuation principles are relevant to DVO decision-making, this study was exploratory in nature and a qualitative research design was used. It is important to note

that any graphical illustrations with numerical values were only used to substantiate the qualitative data obtained from the findings of the study. The use of qualitative research is appropriate when a study is aimed at gaining a deeper understanding of phenomena in greater detail and depth, considering the analysis of experiences, views and behaviours without any relation to the use of statistics, mathematics and numerical data (Quinlan *et al.*, 2015:125). Moreover, qualitative research provides insights into the problem, enabling the researcher to uncover trends in thought, as well as providing deeper insight and meaning to the problem (Van Zyl, 2014:213).

This research specifically made use of a generic qualitative design. Generic qualitative research, also termed “basic qualitative”, describes participants’ own experiences, perceptions and opinions of the phenomenon under investigation (Sandelowski, 2000:338). Percy, Kostere and Kostere (2015:78) postulate that generic qualitative research is the most appropriate when the researcher i) seeks to investigate people’s opinions, perceptions, attitudes or beliefs on a specific topic under investigation; ii) seeks to investigate reflections on the experiences that people have had, and/or iii) already has pre-existing knowledge on the topic under investigation and would like to gain more in-depth knowledge on the topic from participants' perspectives.

Generic qualitative research was appropriate and a natural choice for this study, as the researcher aimed to develop a deeper understanding of the application of effectuation theory in a new context of distressed venture environments. This required in-depth information and insight involving experiences, views and perceptions that were solicited from senior and experienced expert BRPs who also conduct informal turnarounds (TPs), BRPLLs and BRTs. The data were collected through in-depth semi-structured interviews to provide deeper insight and understanding of the research problem at hand. Several descriptors were used to describe this study, namely empirical research, primary data and cross-sectional study. These are discussed briefly below.

This study was empirical. Empirical research refers to research that aims to describe, explain and predict outcomes based on information obtained from observations (Cooper & Schindler, 2014:66). A study is also considered to be empirical if specific research questions are to be answered through the collection and analysis of raw data that is relevant to that particular study (Flick, 2009:51). This study was empirical as it is aimed at gaining a deeper understanding of whether the principles of effectuation are relevant to DVO decision-making.

Moreover, this study also determined the actual elements used by practitioners (expert BRPs - TPs and BRPLLs - and BRTs) in their decision-making of RP judgement. In gathering the information to answer the research question of this study, raw data were collected directly from these practitioners, which assisted in understanding the phenomenon under investigation.

Primary data refers to raw, unique data that has not been analysed which may be qualitative or quantitative and has been collected for the research problem at hand (Ajayi, 2017:3). A researcher collects this type of data directly from a source, in line with the requirements of the specific study conducted (Ajayi, 2017:3). This study made use of qualitative primary data that were collected directly from participants through in-depth semi-structured interviews using a newly developed data collection instrument and a discussion guide. Moreover, the raw data collected was used to address the research problem at hand and was tailored to the specific needs of the study.

Researchers can choose between a cross-sectional study, a longitudinal study or a cohort study. In a cross-sectional study, the researcher measures the outcomes and exposures of the study participants at the same time (Welman, Kruger & Mitchell, 2005:95). A cross-sectional study also allows for each participant to be observed, interviewed and surveyed at once (Saunders & Lewis, 2012:190). The cross-section study design was appropriate for this study because it is not time-consuming, captures a specific point in time and the participants were interviewed all at once to solicit in-depth insights.

5.2.1 General approach or tool(s) employed

As indicated above, this study was qualitative and the data were collected using in-depth semi-structured interviews. This interview method will be explained in more detail in Section 5.5.2. The data collected from the in-depth semi-structured interviews were analysed through the use of qualitative content analysis using thematic analysis. In collecting the data, one-on-one interviews with expert BRPs (TPs and BRPLLs) and BRTs within the Gauteng Province, South Africa were conducted.

The data from the in-depth semi-structured interviews were analysed using the descriptive qualitative data analysis approach, known as thematic analysis. Thematic analysis is the most common form of data analysis used in generic qualitative research and can be defined as a method used to identify, organise, analyse and provide insights on patterns and themes

across data sets (Braun & Clarke, 2006:6). Moreover, thematic analysis is not wed to any pre-existing framework, and it reports on the experiences, meanings, and realities of participants and works to unravel the surface of reality (Braun & Clarke, 2006:9). Thematic analysis was, therefore, appropriate for this study as it was used to identify themes regarding the actual elements of effectuation and/or causation in BR decision-making. This was done without making any attempts at building a theory through analytical processes associated with grounded theory, presenting a detailed case study report or making use of any pre-existing framework. One of the research instruments used to collect the data required the researcher to analyse the data using an Excel spreadsheet to calculate averages used to determine whether participants use effectual or causal thinking. As mentioned, any figures or numerical values used in this study were simply used to support the qualitative data obtained from the interviews collected. In addition, instead of the researcher developing initial proposition to guide the study, propositions were developed based on the findings of the study. The main purpose of these propositions is to guide future researchers on the aspects to look out for when studying a similar phenomenon around the evaluation of a DVO. Moreover, the propositions will help in providing a road map for future researchers to investigate the aspects identified, verify the relationships found and validate the current research's findings. The next section details the sampling of this study.

5.3 SAMPLING

The sampling strategies employed in this study are discussed below. The section delves into the context and units of analysis, followed by sampling methods and size used.

5.3.1 Context and units of analysis of the study

This study was conducted to explore and address the research problem by collecting data from a group of expert BRPs (TPs and BRPLLs); all these BRPs are fully knowledgeable in BR and operate in the distressed venture environment of BR. The last group of participants includes BRTs who are registered for the Certified Rescue Analyst (CRA) Programme, and aim to become BRPs someday. South Africa was chosen for a South African context, and Gauteng was chosen as it represents the country's economic hub.

Selecting these participants was important as they were able to provide in-depth information regarding the application of effectuation to the DVO and provided insight into what informed their decision-making. The researcher was able to uncover the principles that apply to the

DVO, and which principles of effectuation or causation are used/applied by these participants in the BR industry. Obtaining this information could contribute to the broader academic field as well as in practice for practitioners to determine whether a distressed venture contains an opportunity or not; it may also help determine if effectuation informs better decision-making when evaluating a DVO. Thus, the unit of analysis for this study was effectuation theory application in BR decision-making and the units of observation from which the data were collected were expert BRPs (TPs or BRPLLs) and BRTs, as well as effectuation literature.

5.3.2 Sampling methods

Sampling in qualitative studies often occurs at two or more levels, namely at an organisational and an individual level. These will be explained in more detail in the subsections below.

5.3.2.1 Sampling of organisations

To qualify to participate in the study, the sampling of expert BRPs (TPs and BRPLLs) only occurred at an individual level, given that BRPs are appointed in their capacity and the information collected was regarding themselves. Chapter 6 of the Companies Act requires that BRPs be appointed in their capacity as individuals and not within their organisations. The sampling of expert BRPs therefore came from individual BRPs as they do not represent any organisations. However, for the BRTs, sampling took place on both an organisational and individual level.

The sampling of the BRTs began at an organisational level. At this level, purposive sampling was used to identify a single eligible institution. The institution (a university located in Gauteng) was selected on the basis that it currently offers the Certified Rescue Analyst programme. This ensured that the participants could assist in addressing the research question and met the individual criteria set out in the subsection below. At an organisational level, purposive sampling – namely homogenous – was used to identify eligible institutions that met the selection criteria stated above.

5.3.2.2 Sampling of individual participants

The selection of individual participants who are expert BRPs (TPs and BRPLLs) represented the first level sampling of this study, whereas the selection of BRTs represented the second

level sampling for this study. The first group of participants to be eligible for this study were licenced BRPs who were also involved specifically with informal turnarounds and thus TPs but also involved in BR and thus considered expert BRPs. The second group of participants were also expert BRPs but these were BRPLLs. Although these BRPs were from different backgrounds (liquidation and legal), what was similar about them is that they were selected on the basis that they were registered with the Companies and Intellectual Property Commission (CIPC) and thus were 'licenced BRPs' based in Gauteng. The qualifications of BRPs selected for this study ranged from law, accounting and business.

The CIPC ranks registered BRPs in terms of the working experience they possess in a related field. In line with the CIPC requirements, junior practitioners are classified as having less than five years of working experience, experienced practitioners are those with more than five years of working experience and senior practitioners are those BRPs who possess more than 10 years of working experience. For this study, the individual BRPs selected held either a senior or an experienced BRP license. Additionally, selected individual participants had taken an appointment or appointments and administered at least one BR case. These practitioners also had adequate knowledge of BR and were experienced in the BR field enough to be considered experts in the field.

BRPs are experts and are at the forefront of the BR process, overseeing the BR proceedings – thus, they possess the ability to determine whether a distressed venture contains an opportunity or not (decision-making). Through the information they provided, the researcher was able to determine the principles of effectuation and/or causation that are relevant to the DVO. BRPs at various levels (senior and experienced) were able to provide various perspectives and insights on whether effectuation and its principles were applied in the industry. The BRPLLs were selected to see if they would offer similar or different insights and perspectives from TPs.

BRTs were selected on the basis that they were registered for the Certified Rescue Analyst programme at the time of data collection. These individuals possessed sufficient BR knowledge (although it was textbook knowledge) but little to no practical BR experience. Some of the individuals had business experience, with some gained through closely observing BRPs and being somewhat involved in BR matters. These BRTs shed insight and somewhat different perspectives as to how they would evaluate a DVO based on their

knowledge of BR. Their perspectives were important to understand whether their decision-making, when applied, would be similar or different from that of expert BRPs.

The decision to use BRTs who are also students was deemed appropriate in expertise experiments as a common and established practice; as such, this study considered BRPs involved in BR as experts. The use of students is supported by Dew *et al.* (2009), who state that previous research in management and entrepreneurship has effectively used a sample of students. Moreover, Sarasvathy (2001), who introduced effectuation theory, used students as part of their study sample to establish the use of effectual versus causal logic in novice entrepreneurs; thus, this study aimed to do the same through the use of BRTs.

To select the individual participants from the three groups of participants, purposive sampling (homogenous and snowball sampling) was used. Purposive sampling is a non-probability sampling method in which the researcher's judgement is used in deliberately recruiting participants who are information-rich and knowledgeable or experienced in a specific phenomenon under investigation and would also help in answering the research question at hand (Creswell, 2012:206). The use of purposive sampling enabled the selection of individual participants that were beneficial to the overall purpose of the study and, as such, provided relevant information regarding the overall aim of the study.

The purposive selection of individual participants considered the subjects' socio-economic status, their extent of insolvency knowledge and the level of experience being exposed to the BR industry. Homogenous and snowball sampling is a form of purposive sampling commonly used by researchers in qualitative studies. Homogenous sampling involves the selection by a researcher of a sample that has similar characteristics, which then reduces variation (Bornstein, Jager & Putnick, 2013:363). Homogenous sampling was initially used in selecting individual participants in the various groups of BRPs (TPs and BRPLLs) and BRTs were based on the inclusion criteria for each category of the individual participants. That is, in each of the groups of individual participants included in the study, individuals possessed similar characteristics of that particular category and thus met the inclusion criteria stated above for expert BRPs and BRTs.

While homogeneous sampling may negatively affect the transferability of the findings to a larger population, the merits that accompany the use of this method are that it requires minimal effort, and is less costly given that the participants are centralised in the same geographic area. Moreover, focusing on a sample that has similar characteristics helps

reduce variation on the research topic and allows the researcher to solicit detailed information needed to answer the research problem (Bornstein *et al.*, 2013:363). In addition to this, snowball sampling was used to access other participants in the study and to supplement the homogenous sampling method.

Snowball sampling allows the researcher to access other participants using referral and it is typically used after data collection, where participants are asked to recommend other individuals who may be eligible (Creswell, 2012:209). Once data collection had begun, snowball sampling was implemented by asking participants who had agreed and were interviewed to recommend other participants who met the inclusion criteria for each group (TPs, BRPLLs and BRTs, respectively). Additionally, individual participants from these various groups were also sampled based on the recommendations made by the researcher's supervisor. The advantages of snowball sampling are that there is little planning required, it is cost-effective and allows the researcher to access other hidden participants through referrals (Creswell, 2012:209).

5.3.3 Sample size

Saunders, Lewis and Thornhill (2009:235) state that a general study should comprise around 25-30 interviews. This is contrary to Guest, Bunce and Johnson (2016:74), who make the recommendation of 12 interviews, after which no new information is generated from additional interviews. Initially, this study aimed to obtain a minimum target sample size of 25 individuals; however, due to data saturation being reached at the 20th interview, only 20 interviews were conducted. The principle of data saturation was applied based on the guidelines of Guest, Bunce and Johnson (2006) who postulate that data saturation is reached when interviewed participants no longer generate new themes, new insights, new opinions or any new information on the topic under investigation. Thus, on the 20th interview, the interviewer found that no new, important insights were discovered, therefore data saturation was reached. It was not necessary to continue conducting additional interviews when additional participants did not yield any new information that was useful for the phenomenon under investigation (Quinlan *et al.*, 2015:182).

For this study, the 20 interviews conducted consisted of 15 BRPs (10 TPs and five BRPLLs) and five BRTs. The researcher interviewed one individual participant per participating organisation for the expert BRPs and interviewed five BRTs from one organisation. The

minimum sample size for organisations and individual participants is presented in Table 5.1 below.

Table 5.1: Minimum sample size for organisations and individual participants

Category	Firm sample size	Individual participant's sample size
BRPs (TPs)	Not applicable for TPs	10
BRPs (BRPLLs)	Not applicable for BRPLLs	5
BRTs	1	5
Total minimum sample size	1	20

5.3.4 Summary of overall sampling design

The table below provides an overview of the sampling design that was used in the study. It includes details on the sample, the organisations approached and the individual participants who took part in the interviews.

Table 5.2: A summary of the sampling design

Sampling of:	Organisations	Individual participants
Main inclusion/exclusion criteria:	Not applicable for expert BRPs (TPs)	The individual participants were from Gauteng, South Africa; The individuals were involved in informal turnarounds The individuals were registered with the CIPC holding a senior or experienced BRP license; The individuals had taken an appointment and administered at least one BR case and; The individuals possessed the necessary extensive knowledge and experience in the BR field.
	Not applicable for expert BRPs (BRPLLs)	The individuals were based in Gauteng, South Africa; The individuals were registered with the CIPC holding a senior or experienced BRP license; The individuals came from a liquidation or legal background (attorneys and liquidators) The individuals possessed adequate knowledge and experience in BR; and The individuals handled at least one BR case.
	The institution is a university located in Gauteng. The institution offers the CRA programme.	BRTs were based in Gauteng, South Africa. BRP students were registered for a CRA programme during the time of data collection; and BRP students must possess some knowledge of BR, with intentions of becoming BRPs.

Sampling of:	Organisations	Individual participants
Overall minimum target sample size:	One institution	10 expert BRPs (TPs) Five expert BRPs (BRPLLs) Five BRTs Total sample size = 20 participants
Minimum sample size per participating organisation:	One	One individual per participating organisation.
Sampling method(s) used:	Purposive sampling (homogenous sampling)	Homogenous sampling; and Snowball sampling.

The next section discusses the recruitment strategies employed in this study.

5.4 RECRUITMENT

Before the commencement of data collection, the researcher sampled potential participants using the individual sampling methods stated above. The sampling methods were used to obtain the minimum sample size for individual participants needed for the study. The expert BRPs (TPs and BRPLLs) were recruited by obtaining a list of their names and email addresses on the CIPC website, which publishes these details for the public. After obtaining these details, the researcher sent a letter of introduction via email to the potential participants and this letter detailed the purpose of the study and requested the participant's permission to participate. Following their acceptance to participate, a confirmation of the date and time most suitable to the participant was made and a meeting invite was sent.

The researcher also used LinkedIn (public platform) in some instances to recruit the expert BRPs and in this instance, the researcher also prepared a brief introduction and sent it to the participants to ask them to participate in the study. Following their acceptance to participate and sharing their email addresses, the researcher sent the participants an email with a letter of introduction as a formal request. A confirmation of the date and time most suitable to the participant was also made and a meeting invite was sent.

For BRTs, the researcher had received a letter of permission from the institution that met the selection criteria and was provided with contact details of the BRTs (students) who have completed the BR analyst course with them and granted permission to be contacted. These individuals were contacted via email and, following their acceptance to participate in the

study, a confirmation of the date and time most suitable to the participants was made and a meeting invite was sent. The next section discusses the data collection and the methods employed in obtaining the data used in the study.

5.5 DATA COLLECTION

With the sample described, it is important to provide details on the data collection method used. The following section, therefore, discusses the type(s) of data and the data collection methods used in the study.

5.5.1 Type(s) of data collected

In this study, the type of data that was collected was interview data, which was mainly collected through semi-structured interviews. Interviews are used by a researcher to make sense of behaviours, attitudes and practices of organisations or people. Interviews are beneficial, as in-depth knowledge can be solicited from interviewing key informants on the topic under investigation (Rowley, 2012:262). This study investigated and explored the application of effectuation theory to the DVO in practice. Interview data, therefore, provided the researcher with some insight and in-depth knowledge on which decision-making logic practitioners applied in practice (effectual and/or causal logic) and how it is applied. Additionally, collecting interview data was appropriate and relevant for this study because this enabled the researcher to obtain useful information, where participants were able to describe detailed information and the researcher was able to obtain information that could not be obtained through other means – such as observation (Creswell, 2012:218).

5.5.2 Data collection methods and tools employed

This study was qualitative and a mixture of face-to-face and online in-depth semi-structured interviews were conducted to collect the data. Most of the interviews for the study were, however, conducted online using platforms such as Google Meet, Zoom or MS Teams, as participants preferred online meetings and found them more convenient. In-depth interviews were selected for this study as they enabled the researcher to document multiple perspectives of reality and therefore obtain detailed descriptions from respondents (Truong & Dang, 2017:79). Moreover, in-depth interviews usually consist of a conversation between two people, conducted face-to-face, over the phone or online. The choice of a semi-structured format for the in-depth interviews was motivated by the sense of flexibility that is

offered, wherein the researcher was able to ask follow-up questions and had the freedom to ask for clarification and elaboration on the answers provided by the individual participants (Lopez & Whitehead, 2013:128). These in-depth semi-structured interviews were conducted on separate occasions from the end of January 2023 until early May 2023.

A pre-test was conducted with one participant, a BRP who is also a TP who had similar characteristics to the final target sample for BRPs (TPs). This pre-test was conducted to identify any misalignment of the discussion guide and the two research instruments that were used to collect the data (Instruments A and B) explained in detail below. The pre-test was conducted face-to-face, and the participant signed the informed consent form and agreed to have the discussion audio recorded. Minor changes were made to the discussion guide and the research instruments based on the feedback received from the participant. The pre-test data were included in the findings of the study.

Following the confirmation of the date and time most suitable to the participants, introductory letters containing details of the research study were attached and sent with the meeting invites. Each interview lasted between 33 and 104 minutes, with an average duration of 57 minutes. At the beginning of each interview, participants were requested to sign the informed consent form (Appendix B), which outlined the details of the study and guaranteed confidentiality. Participants were also asked for their consent to record the session, which would enable each interview to be transcribed to reflect an accurate account of each interview and for analysis purposes. After each interview, the audio recording was transcribed within one week.

In collecting the data, 20 interviews (each conducted in one sitting, either face-to-face or online) were conducted. One-on-one interviews allow the researcher to ask questions and record the participant's answers for the proposed study while the researcher makes notes during the interview (Creswell, 2012:218). Furthermore, one-on-one interviews allow the researcher to ask questions and thus provide comments that go beyond the initial questions that were asked. At the beginning of the interviews, participants were told how the interview would work and that there were two research instruments to be completed and these were completed on their behalf by the researcher based on their answers.

As mentioned, two research instruments were used; Research Instruments A and B (Appendices C and D, respectively) alongside a discussion guide (Appendix B). A discussion guide, containing a list of open-ended questions, was developed with wrap-up

questions to direct the conversation and ensure that rich context-specific data were obtained. Research Instruments A and B were all guided by the themes identified in the literature review and the research questions of the study. Research Instrument A was developed to offer interviewees a choice between two statements – either Statement 1 (causal) or 2 (effectual) – that they resonate with and thereafter rate the strength of their agreement from strongly agree, agree and slightly agree. Afterwards, participants had to qualify their statements by explaining in detail the reason why they had chosen the statement they chose. In total, this instrument consisted of 20 questions for participants to choose from. Research instrument A was developed based on the five principles of effectuation (right hand side of research instrument A) contrasted with causation elements (left hand side of research instrument A) that have been explored in detail chapter 3 of this thesis. On the questionnaire, question 1 to 4 relates to the pilot in the plane principle, question 5 to 8 relates to the bird in hand principle, question 9 to 12 relates to the affordable loss principle, question 13 to 16 relates to the crazy quilt principle and lastly question 17 to 20 is based on the lemonade principle.

Research Instrument B also gave participants a choice between two different statements and a total of five sets of questions were asked based on whether effectuation elements were applied in practice within the industry. Similarly, participants had to choose between Statements 1 or 2 provided and thereafter qualify their statements by explaining, in-depth, why they had chosen the statement they had chosen based on their perception of how they think other BRPs are doing things in the industry. Research instrument B was also developed in line with the five principles of effectuation (right hand side of research instrument A) contrasted with causation elements (left hand side of research instrument A) that have been explored in detail chapter 3 of this thesis. From research instrument B, question 1 relates to the pilot in the plane principle, question 2 relates to the bird in hand principle, question 3 relates to the crazy quilt principle, question 4 relates to the affordable loss principle and the last question is in relation to the lemonade principle. In this instrument, participants did not have to rate the strength of their agreement for the statements they had chosen. Participants were also asked in the interviews whether they perceived these elements to be applied unknowingly/deliberately or otherwise. Both the completed research instruments gave the researcher an indication of the decision-making logic applied, which

may be effectual, causal or a combination of both based on their responses and motivations. In essence, the use of the two research instruments enabled the researcher to obtain multiple perspectives based on the experiences of various expert BRPs (TPs and BRPLLs) and BRTs.

In wrapping up the interviews, the researcher also prepared a discussion guide that consisted of wrap-up questions based on RP and how it is judged. The set of questions in both Research Instruments A and B and the discussion guide used could be modified at any time during the study to obtain specific information that the researcher may need. The interviews were recorded, and the recordings were used for transcription purposes. Once this information was obtained, the researcher indicated that they would like to end the interview and thanked the participants for their participation. After the data were collected, the recordings were transcribed by the researcher and the data were analysed. An in-depth discussion of how the data analysis was conducted for this study is provided in the next section.

5.6 DATA ANALYSIS

A thematic analysis was conducted to analyse the interview data collected for this study. Braun and Clarke (2012:57) define thematic analysis as a method of systematically identifying, organising and offering insights into patterns of meaning across a data set. All the interviews were recorded and from there, the researcher listened to the audio recordings to familiarise themselves with the data. The researcher transcribed the recordings to text in preparation for the data analysis. Thereafter, the transcribed interviews were loaded into the qualitative software Atlas.ti, which was used to code data and organise the analysis.

As the transcripts were read again, initial codes and data extracts that were considered potentially relevant to the study were identified and labelled. In essence, the process of coding entailed including features that seemed to be salient to the data that were transcribed. Thus, the researcher created new codes by assigning codes to salient features by labelling them. In vivo coding was also used, where salient phrases in the data were used as the codes themselves. Following the coding of four datasets, a master list of codes consolidated by Atlas.ti from the initial codes was downloaded, studied, and further refined to rename, join or remove redundant codes.

The second round of coding was conducted on the remaining datasets, using the refined list of codes that were prepopulated into Atlas.ti. The final coding phase included grouping similar and overlapping codes to form key themes and sub-themes. The quality of the themes was verified by revisiting the data to ensure accuracy and alignment between these themes and the datasets. Appendix E shows a table linking codes to final themes and sub-themes based on the analysis from Atlas.ti. The overall analysis was conducted to understand the information provided by the participants from the two Research Instruments (A and B) and the information obtained using the discussion guide. Research Instrument B was analysed using Atlas.ti only, whereas Research Instrument A was analysed using Atlas.ti and an Excel spreadsheet. The details of the Excel spreadsheet analysis are explained in detail in the next paragraphs.

The Excel spreadsheet captured the total average scores that were obtained from Research Instrument A. These scores were calculated for the researcher to understand whether participants were leaning towards effectual or causal logic. It is important to emphasise that this study was qualitative and any figures provided were used to substantiate the qualitative data that were provided. The first part of this analysis included calculating the mean scores for each set of questions. Each set of questions, which consisted of four questions, had the total mean score calculated by adding all the scores that the participants obtained, divided by the number of questions.

Figure 5.1 shows an example of how the first part of the analysis was done for Research Instrument A (instrument attached in Appendix C). The figure below shows an example of the first set of questions consisting of four questions. To calculate the total score for the first set of questions, the researcher added all the scores obtained as highlighted in yellow (shaded) and these were divided by the number of questions (four) to arrive at the total mean score for this specific participant. These calculations were done for all five sets of questions across all the participants in their respective groups.

When the first part of the analysis was done with the mean scores obtained for each set of questions for all participants, the researcher had to calculate the average score for each set of questions that were linked to the five principles of effectuation; this was the second part of the analysis. Figure 5.1 shows an example of the individual mean scores obtained for one of the participants and the total mean of 4.5 was obtained. Once all the mean scores were obtained from all the participants in their respective groups, these were added together, and

divided by the number of participants. Appendix G details how the scores were obtained for each participant in their respective groups.

BRPs usually have a solution for a distressed venture. If you are asked to assist in a troubled business, how do you determine the solution for the distressed venture?

Statement		Or						Statement		Item	V
1	I have an idea of the solution for the distressed business from the first meeting with the management.	1	2	3	4	5	6	I will see what is possible with the distressed venture when I start with the investigation.	1		1
2	The solution in terms of (reorganisation, liquidation or BRiL) is clear and consistent on where one could end up with the distressed venture.	1	2	3	4	5	6	It is not possible to see from the beginning where the distressed venture would end up, in terms of (reorganisation, liquidation or BRiL).	2		1
3	I can predict what outcome of the venture will be (reorganisation, BRiL or liquidation) right from the beginning.	1	2	3	4	5	6	There is no need to predict whether reorganisation, BRiL or liquidation will ensue until I am somewhat close to the distressed venture.	3		1
4	Once I visualise the solution, I remain with pursuing it.	1	2	3	4	5	6	The solution may change along the BR process.	4		1
								Score	18 /4 = 4,5		

Figure 5.1: An example of the individual mean scores calculated

All the mean scores obtained for each set of questions that consisted of four questions were tallied together to arrive at an overall average. The overall average score was then used to determine whether, for the pilot-in-the-plane principle, for example, practitioners leaned towards effectual or causal thinking. **An average score from 1 to 2 but less than 3 showed a strong inclination towards causal thinking (causation) while an average score of 3 but also less than 4 showed a slight inclination towards causal thinking. On the other hand, an average score from 5 to 6 showed a strong inclination towards effectual thinking (effectuation) while an average score between 4 and 5 showed a slight inclination towards effectual thinking.** An example of how the overall average score was calculated for BRPs (TPs) is depicted below in figure 5.2. A full spreadsheet of the analysis is also included in Appendix G for all participants.

TPs	1	2	3	4	5	6	7	8	9	10	Average	Effectuation/causation
Pilot in the plane	5,75	4,5	6	4,5	4,75	5,25	6	5	5,25	4,33	5,13	Strong inclination towards effectuation
Bird in hand	2,2	4,5	1,25	3,25	2,75	4	1,6	2,25	3,25	3	2,8	Strong inclination towards causation
Affordable Loss	3,25	2,75	1	3	3,5	3,5	2,25	2,75	2,25	2	2,64	Strong inclination towards causation
Crazy Quilt	3,75	3	6	4,75	5	4,5	4,25	4,25	4,5	4,25	4,42	slight inclination towards effectuation
Lemonade	3,75	3,75	6	4,25	3,75	4,25	5,3	5	2,3	3	4,13	slight inclination towards effectuation

Figure 5.2: Example of the overall average scores obtained for BRPs (TPs)

The next section discusses the trustworthiness of the study and the criteria used in this regard.

5.7 TRUSTWORTHINESS

To ensure trustworthiness, specific criteria must be met. These include credibility, dependability, confirmability and transferability, which were used to demonstrate the quality and rigour of the study.

5.7.1 Credibility

Credibility addresses the compatibility of the findings of a study with i) reality, ii) real perspectives and iii) the experiences of participants (Bloomberg & Volpe, 2018:162). It regards the confidence in the truthfulness of the data and its interpretation (Polit & Beck, 2012:585). Researchers can enhance the credibility of their findings through the use of well-established commonly used data collection methods (Polit & Beck, 2012:585). To ensure credibility in the study, the researcher made use of a well-established primary data collection method used in qualitative research, namely semi-structured interviews (Polit & Beck, 2012:585).

According to Adams, Khan, Raeside and White (2007:113), triangulation is important in management studies as it allows for data accuracy and alternate explanations. To ensure credibility in this study, site triangulation was used, which involves using participants from different organisations to reduce the effects of the study of particular factors that are local to a specific single organisation (Shenton, 2004:66). This study, therefore, employed site triangulation by selecting 15 expert BRPs (10 TPs and five BRPLLs) and five BRTs from various organisations to ensure a rich representation of the topic under investigation. Moreover, the researcher used triangulation of sources which involved using multiple sources of data to contrast or compare the data of the study as a way to establish supporting and/or contradicting information. This study, therefore, employed triangulation of sources by collecting data from expert BRPs (senior and experienced TPs and BRPLLs) as well as BRTs, thus obtaining various perspectives on their application of effectuation to the DVO in practice.

5.7.2 Dependability

Dependability refers to the reliability of the data collected over time with a set of conditions (Polit & Beck, 2012:585). Dependability seeks to answer the question of whether the repeat of the study on the same participants in the same context would yield similar findings (Polit & Beck, 2012:285). To ensure dependability, the researcher provided a comprehensive description of the processes employed in the study (Shenton, 2004:70). Thus, an audit trail showed a detailed description of the research design, the data collection and data analysis methods employed in the study.

5.7.3 Confirmability

Confirmability is concerned with verifying that the data provided to the researcher during data collection represents the information provided by participants and does not reflect any biases, preferences, motivations, perspectives or invented interpretations by the researcher (Polit & Beck, 2012:585; Shenton, 2004:72). To ensure confirmability, the designed discussion guide and the research instruments used to collect data were pre-tested and reviewed by more experienced researchers before the data collection took place. Additionally, the researcher was diligent in the design of the discussion guide and the research instruments (A and B) to ensure that the set questions were asked in a way that the researcher's opinions, perspectives or preferences did not in a way influence the participants. As a strategy for member checking, the discussion guide and the research instruments were also checked and approved by an experienced researcher before commencing with data collection. The researcher further stored all notes and recordings to ensure confirmability and the interview recordings were transcribed in their entirety without any deduction or additions to ensure accuracy of the findings.

5.7.4 Transferability

Transferability refers to the extent to which the findings of the study are applicable and can be applied or transferred more widely in other settings or contexts outside of the study (Polit & Beck, 2012:585). Transferability was obtained by providing sufficient descriptive data that would allow other researchers to assess whether the research design and data collected can be applied in other contexts outside of the study. The researcher further provided a thick description of the participants and the context of the study. Other pertinent information included were the number and lengths of the interviews conducted (shown in Appendix F),

the period over which the data were collected, and the number of participants observed (Shenton, 2004:70).

5.8 ETHICAL CONSIDERATIONS

This study received approval from the Research Ethics Committee of the Department of Business Management at the University of Pretoria in November 2022. Before commencing the interviews, each participant was obligated to review and endorse the informed consent form found in Appendix B. This document elucidated the study's purpose, emphasised the voluntary nature of participation, and assured participants of their right to withdraw at any point. In addition, it provided guarantees of anonymity and confidentiality. Anonymity was maintained by using pseudonyms and eliminating any mention of individuals' or companies' names in both the interview transcripts and the ultimate presentation of the data.

5.9 DISCUSSION SCHEDULE

This section describes the research questions, as well as the discussion schedule and instruments used during the interviews. Table 5.3 below outlines the interview questions related to each research question of the study. The table also shows the link between the literature review and the development of research instrument A and B and the wrap up questions.

Table 5.3: The interview questions related to each research question

Research questions	Interview questions	Link between the literature chapters and the development of the data collection instruments
What elements of effectuation (and causation) are relevant to the DVO?	This research question was answered through Research Instrument A attached in Appendix C.	In total, this instrument consisted of 20 questions for participants to choose from. Research instrument A was developed based on the five principles of effectuation (outlined on the right hand side of research instrument A) contrasted with causation elements (outlined on the left hand side of research instrument A)

Research questions	Interview questions	Link between the literature chapters and the development of the data collection instruments
		<p>that have been explored in detail chapter 3 of this thesis. On the questionnaire, question 1 to 4 relates to the pilot in the plane principle, question 5 to 8 relates to the bird in hand principle, question 9 to 12 relates to the affordable loss principle, question 13 to 16 relates to the crazy quilt principle and lastly question 17 to 20 is based on the lemonade principle.</p>
<p>Are practitioners applying any of the effectuation elements? If so, are they doing it deliberately or unknowingly/otherwise?</p>	<p>This research question was answered through Research Instrument B attached in Appendix D.</p>	<p>Research instrument B was also developed in line with the five principles of effectuation (outlined on the right hand side of research instrument A) contrasted with causation elements (outlined on the left hand side of research instrument A) that have been explored in detail chapter 3 of this thesis. From research instrument B, question 1 relates to the pilot in the plane principle, question 2 relates to the bird in hand principle, question 3 relates to the crazy quilt principle, question 4 relates to the affordable loss principle and the last question is in relation to the lemonade principle. The second part of the question explored the various moderators/rationale behind practitioners' decision making in line with the literature in Chapter 3 that states that practitioners are found to be very protective of the determinants/measurements they use, considering them as intellectual property and are thus not shared openly (Pretorius, 2017:57). The researcher therefore developed the questions outlined in research instrument B to fill this gap.</p>
<p>Could effectuation explain the difference between the choice</p>	<p>These questions were designed for both BRPs and the BRTs. Since BRTs lack the experience of decision-making in rescues, the questions were phrased differently using the words in brackets.</p>	<p>From the literature review conducted in Chapter 4 of this thesis in section 4.2.1, it was clear that there exists a gap on what BRPs use in making the choice for reorganisation/BRIL/liquidation and the specific aspects</p>

Research questions	Interview questions	Link between the literature chapters and the development of the data collection instruments
for reorganisation/BRiL/liquidation?	<p><i>On what basis do you/(would you) decide to pursue either reorganisation/BRiL/liquidation?</i></p> <p><i>What aspects do you/ (would you) look at specifically to support your choice for a reorganisation?</i></p> <p><i>What about BRiL and liquidation? Are there any specific areas that you (you would) mostly focus on when it comes to choosing these solutions?</i></p>	and areas they focus on to make the decision. These questions were developed to fill this gap and to relate them to the effectuation principles or causation elements to explain the rationale behind practitioners' decision making.
Is there a relationship between effectuation principles and RP determination?	<p><i>Based on what you have just explained to me, do you think there exists a relationship between resources such as available resources, endowed and future resources and RP?</i></p> <p><i>In your experience, do you think there is a relationship between various stakeholders and RP?</i></p>	Chapter 4, section 4.3 explored the contextual background to distressed ventures and delved into the resources (or the lack thereof), PCF as a resource requirement relating to the bird in hand principle and the various stakeholders involved in BR (also covered in Chapter 2) and relating to the crazy quilt principle. These aspects enabled the researcher to link them to the principles of effectuation that then informed the interview questions asked. The aim of developing these questions was to establish whether there exists a relationship between effectuation principles and RP determination explored in Chapter 3.

5.9.1 Introductory letter

Thank you for taking the time to meet with me and being willing to participate in my study. My name is Thabang Madigoe, a PhD in Business Management student at the University of Pretoria. The purpose of my study is to investigate and explore the application of ‘effectuation theory’ to the DVO.. Effectuation is a decision-making logic used by expert entrepreneurs in uncertain and resource-restricted market environments to inform their decision-making when pursuing an entrepreneurial opportunity. This study therefore aims to determine whether the same or its elements can be applied to the DVO to inform practitioners (BRPs and TPs) for better decision-making when making the RP judgement. I have therefore asked you to participate in my study, as I believe you will be able to provide me with in-depth and valuable information needed for my study and to learn more from your expertise and professional experience.

This interview is estimated to last for roughly 90 minutes, and you can be assured that this interview will be treated with utmost confidentiality. Your name will not be mentioned when reporting the findings of the study and the information provided will be handled with complete anonymity. Your participation in the interview is voluntary and as a result, you have the right to refuse to answer any questions you are uncomfortable with, and you are free to withdraw from the interview at any point in time.

In order to accurately document the information provided, aid data analysis and allow me to later transcribe the data provided, I kindly request your permission to tape-record this interview. This recording will be treated with confidentiality and will not be shared with any other parties. Before we can begin with the interview, may you please kindly sign the consent form? Signing the consent form serves as verification that you understand the nature and purpose of this interview.

Before we can proceed with this interview, I would like to explain that we have two research instruments with questions that we will complete, and these will form a basis for our interview. We are going to start with the research instrument and thereafter the second one and explain how they work.

Do you have any questions or concerns before we proceed? Shall we begin with the interview?

5.9.2 Main questions

Research Instruments A and B were explained and completed to solicit the responses required. The wrap-up questions from the discussion guide are laid out below and as highlighted above, these questions were phrased differently for BRTs:

1. *On what basis do you decide to pursue either reorganisation/BRiL/liquidation?*
2. *What aspects do you look at specifically to support your choice for a reorganisation?*
3. *What about BRiL and liquidation? Are there any specific areas that you mostly focus it comes to choosing these solutions?*
4. *Based on what you have just explained to me, do you think there exists a relationship between resources (available resources, endowed and future resources) and RP?*
5. *In your experience, do you think there is a relationship between various stakeholders and RP?*

5.9.3 Conclusion

We have now reached the end of the interview for today. Do you think there are any crucial topics or information that you would like to add regarding the evaluation RP of that I may have not covered earlier?

Are there any BRPs that you could refer me to?

Thank you once again for taking the time to participate in the interview. I have learnt a lot from our discussion today and I am looking forward to analysing the information obtained from this interview.

5.10. CONCLUSION

This chapter described the methodology employed in this study and the methods used. The research design of the study was discussed, stipulating that a generic qualitative research design was discussed and the data was collected through the use of in-depth semi structured interviews from fifteen expert BRPs – ten TPs and five BRPLLs - and five BRTs). The sampling and the sampling strategies used were also explained. The study sample consisted of 20 participants which are BRPs who are also TPs, BRPs who come from a legal or a liquidation background and trainees who were students registered for a CRA programme during the time of data collection. Recruitment strategies were also discussed,

where the researcher recruited expert BRPs by using LinkedIn and obtaining a list of their names and email addresses on the CIPC website and a letter of permission was obtained from the one institution selected to recruit the BRTs. This was followed by the data collection strategies employed where the researcher collected interview data using in depth-semi-structured interviews and the interviews were conducted face to face while some were online. A thematic analysis was used to analyse the data and an excel spreadsheet was also used to capture the total average scores obtained from research instrument A to determine whether practitioners were leaning towards effectuation or causation. A discussion of how trustworthiness was ensured was provided and this entailed delving into specific criteria such as credibility, dependability, confirmability and transferability, which were used to demonstrate the quality and rigour of the study. Lastly the ethical considerations for this study were discussed and the discussion guide used was presented.

CHAPTER 6: FINDINGS

6.1 INTRODUCTION

The previous chapter discussed the research methodology used to conduct this study. In this chapter, the findings of the study in relation to the four research questions are presented. The main themes and sub-themes generated from the analysis of the interviews conducted are also reported. Table 6.1 below shows a summary of research questions and their related themes and sub-themes.

Table 6.1: A summary of research questions, related themes and sub-themes

Research questions	RQ1: What principles of effectuation are relevant to the distressed venture opportunity?	RQ2: Are practitioners applying any of the effectuation elements in the industry? If so, are they doing it deliberately, unknowingly or otherwise?	RQ3: Could effectuation inform the choice for reorganisation/BRiL/liquidation?	RQ4: Is there a relationship between effectuation principles and reasonable prospect?
Themes	Theme 1: Principles of effectuation relevant to the distressed venture opportunity	Theme 2: Perceptions of industry by participants	Theme 3: The choice for reorganisation/BRiL/liquidation?	Theme 4: The relationship between effectuation and reasonable prospect
Sub-themes	Pilot-in-the-plane <ul style="list-style-type: none"> • Conducting assessments in business rescue; • Challenges of prediction and the importance of investigations in business rescue; and • Flexibility and adaptability in business rescue solutions. Bird-in-hand <ul style="list-style-type: none"> • The strategic utilisation of resources in business rescue; 	Pilot-in-the-plane principle <ul style="list-style-type: none"> • Pilot-in-the-plane moderators Bird-in-hand principle <ul style="list-style-type: none"> • Bird-in-hand moderators Affordable loss principle <ul style="list-style-type: none"> • Affordable loss moderators Crazy quilt principle <ul style="list-style-type: none"> • Crazy quilt moderators Lemonade principle	<ul style="list-style-type: none"> • Resources in business rescue; • Stakeholders in business rescue; and • Reasonable prospect assessment. 	<ul style="list-style-type: none"> • Resources and reasonable prospect; and • Stakeholders and reasonable prospect.

	<ul style="list-style-type: none"> • Solution-driven approach in business rescue; and • Resources and viability in business rescue. <p>Affordable loss</p> <ul style="list-style-type: none"> • Balancing the best-case scenario and the worst-case scenario in business rescue; and • Risk and the stakes involved in business rescue. <p>Crazy quilt</p> <ul style="list-style-type: none"> • Stakeholder consideration and creditor involvement in business rescue; and • Stakeholder engagements and collaborative partnerships in business rescue. <p>Lemonade</p> <ul style="list-style-type: none"> • Strategies for implementing business rescue plans; and • Adaptability and flexibility in business rescue planning. 	<ul style="list-style-type: none"> • Lemonade moderators 		
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6.2 THEME 1: PRINCIPLES OF EFFECTUATION RELEVANT TO THE DISTRESSED VENTURE OPPORTUNITY

In this section, findings to the research question *What principles of effectuation are relevant to the DVO?* are presented from the evidence found. There are five principles of effectuation presented and the overarching sub-themes relating to each principle are discussed below.

6.2.1 Pilot-in-the-plane

Figure 6.1 provides an overall average score, as well as the lowest and highest score for the pilot-in-the-plane principle obtained from three groups of participants. The first two groups are expert BRPs, namely TPs (10) and BRPLLs (5) and the third group consists of BRTs (5).

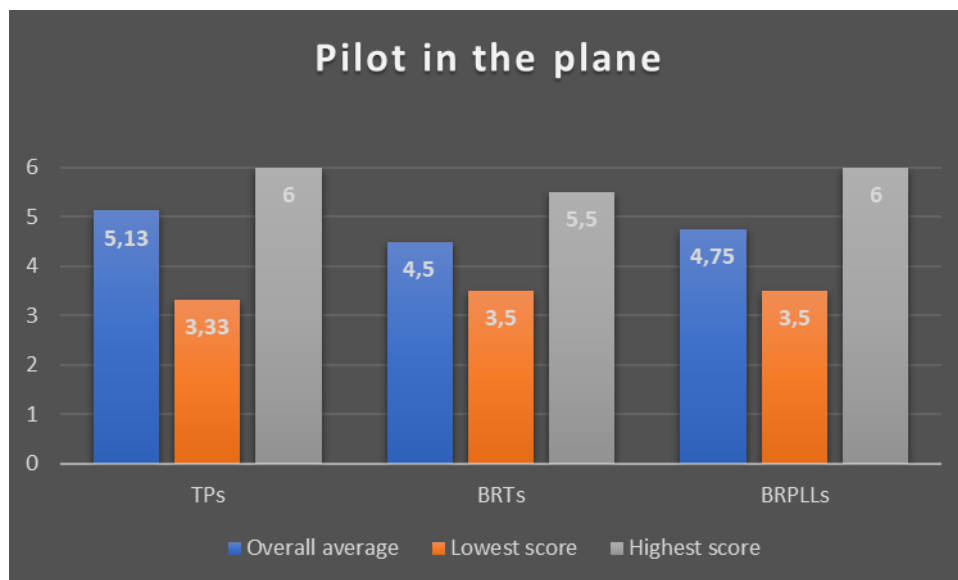


Figure 6.1: Pilot-in-the-plane overall average scores obtained from participants¹

The three groups were presented with a research instrument that had questions relating to the principles of effectuation and causation. Participants had to choose between two statements and rate the strength of their agreement for the chosen statement, ranging from strongly agree, agree to slightly agree. Participants had to explain or qualify why they had chosen that particular statement; the researcher used these responses to create themes.

¹ Please refer to section 5.6 in chapter 5 for the interpretation of the scores

The scores were tallied to indicate whether, in BR decision-making, participants leaned towards effectual or causal thinking.

The findings from the research instrument for TPs indicated an overall average score of 5.13 for the principle of effectuation 'pilot-in-the-plane'. Based on the questions that were asked, this score indicates that when it comes to the pilot-in-the-plane principle, most TPs strongly leaned towards an effectual approach rather than a causal approach. The lowest score obtained for this principle was 3.33, suggesting a slight inclination towards causal thinking whereas the highest score was 6, suggesting a strong inclination towards effectual thinking. The findings for BRTs indicate an average score of 4.5 which indicates a slight inclination towards effectuation, with the lowest score obtained for this principle being 3.5, indicating a partial lean towards causal thinking, while the highest score was 5.5, suggesting a strong preference towards effectual thinking. BRPLLs obtained an overall average score of 4.75 for the pilot-in-the-plane principle, which indicates a slight inclination towards effectuation. The lowest score obtained for this principle was 3.5, indicating a partial lean towards causal thinking, while the highest score was 6, suggesting a strong lean towards effectual thinking. Several sub-themes obtained under the pilot-in-the-plane principle are discussed below.

6.2.1.1 Conducting assessments in business rescue

Participants were asked how they determined a solution for the distressed venture; whether they had an idea of the solution for the distressed business from the first meeting with the management (idea-driven) or whether they determined what was possible when they started with their investigation (investigation-driven). Of the 10 TPs interviewed, 90% agreed or strongly agreed with conducting investigations during the BR process. In determining the turnaround for a distressed venture, TPs mention that a practitioner must investigate instead of trying to develop a solution from the first meeting with management. It is important to assess, review and understand the information at hand before deciding on the existence of RP. TPs further state that, although they may have a gut feeling or an idea of what they think is happening in the business, an investigation remains crucial:

“You need data to review and understand before you can conclude that there is a potential RP.” (TP 10, male)

“I think I will first look at the information, even though I have a gut feel of what’s happening.” (TP 2, male)

In addition, TPs mention the importance of confirming their initial thoughts through an investigation to solidify their solutions. They are of the view that, as a practitioner has more experience, they tend to have an idea of the solution, and this is regarded as a “gut feel” [sic] of how the business is going to play out and in most instances they are right. However, due to changing circumstances, they are not always accurate. TPs therefore emphasise the importance of an investigation despite having a gut feeling, as the exact outcome of the distressed venture remains unknown without proper due diligence. In this regard, while a TP may have their initial thoughts about the solution, an investigation can change that solution. This change occurs as they proceed to draft their BR plans and even afterwards because circumstances change. An investigation therefore strengthens a practitioner’s initial feelings or thoughts.

TPs also state that they investigate in order to be optimistic about their solution and most importantly to uncover various issues relating to the business. Through an investigation, TPs become informed of the creditor’s appetite and discover any hidden information; this helps them finalise their decisions on what the solution may be. Participants mention that there is a lot a BRP can discover through an investigation (such as the securities that management has signed up for) and new information about the distressed venture that can then change a practitioner’s solution - from a turnaround to a BRiL, for example. They state:

“As you have more experience, I think let’s call it gut feel, you walk in and you have a pretty fair idea of how this thing is going to play out and more times you are right but I won’t say you are always right, things change.” (TP 2, male)

“Once you start investigations you become confident. You soon realise what’s the creditor appetite, you soon realise what hidden information they didn’t tell you, you soon realise all the different factors which then finalises your decision as to what the solution would be.” (TP 4, male)

For the BRT group, five participants were interviewed; four of whom agreed or strongly agreed with conducting investigations during the BR process, while one of the BRTs showed support for the idea-driven statement. The majority of the BRTs who agreed with the investigation-driven statement mentioned that they believe they must i) observe what is happening in the company; ii) understand what kind of the company it is; iii) the challenges within the company and iv) how management views these challenges. However, they warn that to use only that would be deadly. BRTs also emphasise the importance of analysing the

information presented to BRPs, as there might be information that is misrepresented or information that is hidden from them.

BRTs explain that management may sometimes be untruthful and tell the BRP something different from what is currently happening in the distressed venture. In most instances, management is most likely to inform the BRP about the good side of the distressed venture to avoid the possibility of failure. Some people, such as the shareholders who have an interest in the business, may stretch the truth as a way to avoid the liquidation route and thus the need and importance of investigations. It is only after being involved in the distressed venture, talking to employees, assessing information relating to the business and looking at the day-to-day operations and how things are done that BRPs have a full understanding of the company's issues. BRTs mention that BRPs must go through the documents they are provided with from a financial perspective, such as cash flow documents, as part of their investigations. By conducting these assessments, BRPs have a good understanding of what is going on in the distressed venture and where the loopholes are; this informs them of whether there exists RP. Moreover, BRPs are usually thrown in a situation where there are several moving pieces and as such, they need to conduct a thorough assessment to understand the main issues and determine a solution for the distressed venture:

“When you enter an engagement for the business, that first impression in terms of what you observe when you get on the premises when you get into the first meeting, you get a view of the kind of people, the kind of company, the kind of challenge, how they view their challenge so that’s a very important starting point as an observation but to use that as the only point of reference is suicidal. You have to do your investigation, but more leaning towards what you find on the ground because you may find that they may be hiding stuff, they might be misrepresenting stuff, they might be lying to you.” (BRT 3, male)

“An investigation is very important, you need to go through whatever is provided to you from a documentation perspective, from the cash flow perspectives, from your previous financials perspective, from a market analysis perspective etc because that in its own right will determine whether you actually have a business.” (BRT 4, male)

From the BRPLL sample, results showed that four out of five (80%) strongly agreed with conducting investigations during the BR process. The other 20% agreed with having an idea

from the first meeting with management. Similar to TPs and BRTs, BRPLLs mention the importance of investigating during the BR process. Confirming the TP findings, these participants mention that it is impossible to develop a solution for the distressed venture if a practitioner has not looked into what is happening within the company and assessed the accuracy of the information provided. Moreover, management may have made many mistakes, and their understanding of the issues may be completely wrong and they might be focusing on the wrong things. BRPLLs mention that they are only able to have a solution in due course and sometimes the solution changes, and may need some rethinking, looking at the creditor landscape to arrive at the ultimate solution:

“It’s physically impossible to have a solution if you haven’t looked into the affairs of the business so by the time you have the first meeting with management you are going to have some superficial information. You are going to maybe have met one or two people or maybe you’ve looked into a few documents. There is no way that you can have a comprehensive appreciation of what the state of the business is.” (BRPLL 1, male)

“Many BRPs who think they’ve got the entire solution for the business from the first meeting probably need to get their heads checked, they haven’t understood what the issues are. So, the solution is always born out of the issues that you produce.” (BRPLL 2, male)

6.2.1.2 Challenges of prediction and the importance of investigations in business rescue

In the interviews, participants were enquired if they could predict what the outcome of the venture would be (reorganisation/BRiL/liquidation) right from the beginning or whether there was no need to predict whether reorganisation/BRiL/liquidation would ensue until they were within the distressed venture. For the TP group, 70% showed a preference for zero prediction of the solution for the distressed venture.

TPs mention that it is difficult to know where an opportunity might end right from their first meeting with management and emphasise the need for a pre-assessment. A pre-assessment gives BRPs an idea of the possibility of success in the matters that they take on. It becomes difficult for practitioners to predict where the distressed venture would end up before one investigates, especially since BRPs can conduct a pre-assessment; however, based on the experience that a BRP possesses, they may have a gut feeling about the

solution. BRPs may know what type of model they want to utilise, but they have no certainty as to whether they will get there as the process is through creditors; thus, they allow the creditors to lead and guide them in the process:

“So, let me just see, so there is no need to predict because the process allows you to do your assessment first, but on the other hand, especially if you have experience, you sort of have a gut feel of what is going to happen”. (TP 2, male)

“I know what model it is that I will be following but you never actually know whether you are going to get there because it’s a creditor-driven process and ultimately I allow creditors to lead me in that respect.” (TP 5, male)

Another aspect that participants mention is that, although there is no need to predict the solution, practitioners are required in the first creditors meeting as per the Companies Act to state whether RP exists or not. While BRPs must know whether RP exists, the exact outcome of the BR process may not be known from the beginning. As a result, an investigation remains crucial instead of trying to predict the outcome. Experience comes into play where prediction is concerned - practitioners mention that those who lack experience may assume to know everything and conduct an assessment which could prove to be wrong; therefore, prediction does not work in the BR space. Prediction also fails due to the quality of the information that BRPs must assess. BRPs receive historical and sometimes updated information about the distressed venture, unfortunately in most cases, this information is incorrect and makes it difficult to predict what the solution will be:

“When I say there is no need to predict, you do need to know is there RP, yes or no, but the exact outcome is invaluable as you go through the process. So, it’s not to say that on day one you have to know is this going to be a BRiL or a trade out or a liquidation. You can have an idea and there can be enough RP to get to work on it and then it can still change over time and that’s fine.” (TP 9, male)

“I think it differs as your experience grows. If you are inexperienced you will find that you think you know everything and you make the assessment but it turns out to be wrong.” (TP 2, male).

In the BRT group, 80% mention that it is not possible to predict the solution. The participants mention that it would be unfair for a practitioner to walk into a distressed venture from day one and presume to know the ultimate solution of how the BR would end up. Participants

emphasise that BRPs must always be open-minded that the solution may change along the BR process:

“It would not be doing it justice, if you walk in and you think I’ve got it, day one I know what I’m supposed to do, day 2 this is exactly where I’m going to go. I think it’s important to always be open to possibilities that reorganisation could possibly go the BRiL route or liquidation.” (BRT 4, male)”

Within the BRPLL group, 80% express that it is not possible to predict the solution right from the beginning. These participants mention that there has to be a due diligence process and assert that practitioners can predict that there is a business and a potential market, meaning RP exists. However, they cannot predict the ultimate solution as it is too early thus confirming the TP findings. BRPLLs do mention that they take on matters wherein they believe RP exists and this assessment determines whether there exists a business, a market, a team, resources and cash to fund the rescue. Confirming the TP findings, BRPLLs also emphasise conducting a pre-assessment. A pre-assessment, also called “an independent debt review” is required to uncover the distressed venture’s issues. It helps a practitioner develop action plans, whilst incorporating and implementing strategies. By conducting a pre-assessment, practitioners can determine whether there exists a business, whether they have support from the lenders, and assess or establish the company’s liquidity since practitioners need to know whether there are funds to run the rescue:

“We take on matters where we believe that there is a prospect and prospect is quite a number of tick boxes, the first one being; is there a business, what is the market perspective, is there a team, is there at least a resource there, or is there cash to fund the restructuring.” (BRPLL 4, male)

“We first have to do a proper pre-assessment, I mean maybe in your field maybe you call this the quick and dirty but this is the independent debt review out of that it will tell you what the issues are and out of your pre-assessment you have identified the issues and then you also on a high level come up with action points or recommendations that you need to put in place.” (BRPLL 5, male)

6.2.1.3 Flexibility and adaptability in business rescue solutions

Participants were further asked whether, once they visualised the solution, they continued pursuing it or whether they were of the view that the solution may change along the BR

process. A majority (80%) of the TPs indicate that when they have visualised the solution, they cannot just continue pursuing it as the solution may change along the BR process. In most instances, TPs explore different models and strategies to make the visualised solution effective. Throughout this whole process, a practitioner's initial thoughts evolve and this changes the solution. TPs caution against sticking with a visualised solution; for instance, when conducting their investigation, there might be new information that emerges that management did not tell them about, thus changing the solution. Moreover, TPs engage with other people involved in the distressed venture and receive new information, which may result in different conclusions about the visualised solution:

“You can't initially when you start with the engagement visualise a solution and just continue with it. Because you must follow specific processes, especially in the initial stages of BR, you need to look at different models to make it work and there will be in most instances changes to your initial thoughts compared to where you end up.” (TP 5, male)

“The circumstances change and the investigation does not always include all data so the pre-rescue information is based on the information you are told by the company and management. Once you are a practitioner you start engaging with other affected persons to provide broader sets of information, that may lead you to different conclusions.” (TP 10, male)

In the BRPLL group, 80% of individuals confirm the TP findings, mentioning that it is difficult to stick to one solution as the BR process is fluid and requires BRPs to adapt. Engagements with various affected parties, for example, an equity investor, may bring something else to the table that then changes the direction of the solution. Similarly, 80% of the BRTs also confirm the BRP findings, mentioning that the solution may change along the BR process:

“Well look I mean the solution may change along the BR process and I will give you an example, it's possible to say that this is going to be a trade out and while you are busy you receive an offer from someone who wants to come in and participate in an equity transaction for example, then the solution might change and you end up with an M&A transaction for example.” (BRPLL 5, male)

“Often the situation changes throughout the process and you need to change your plan.” (BRPT 2, female)

6.2.2 Bird-in-hand Principle

Figure 6.2 provides an overall average score, as well as the lowest and highest score for the bird-in-hand principle obtained from three groups of participants. The first two groups are expert BRPs, namely TPs (10) and BRPLLs (5) and the third group consists of BRTs (5).

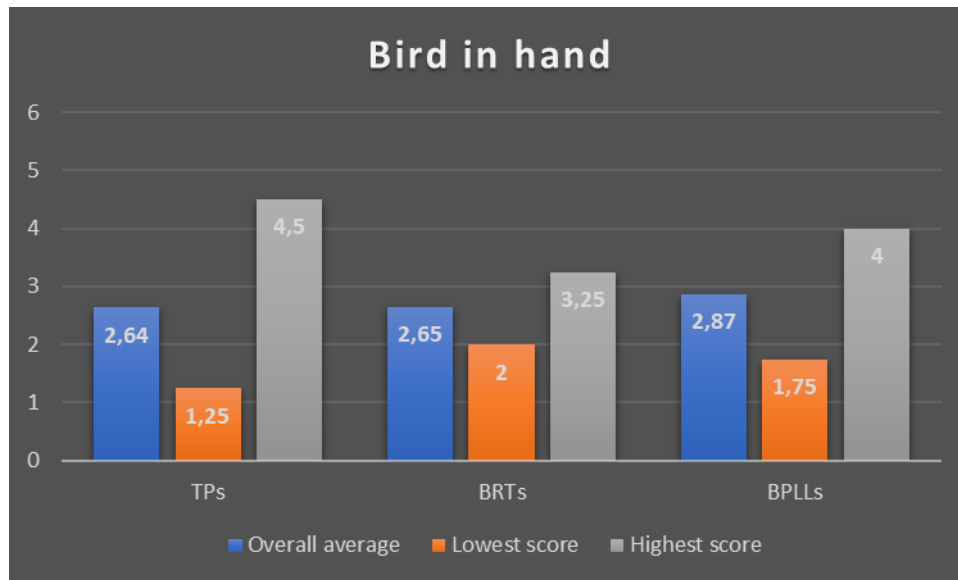


Figure 6.2: Bird-in-hand principle overall average scores obtained from participants ²

For the bird-in-hand principle, TPs scored an overall average score of 2.64 which indicates that they strongly lean towards causal thinking, with the lowest score being 1.25 (also suggesting a strong inclination towards causation) and the highest score at 4.5 (showing a slight lean towards effectuation). BRTs obtained an overall average score of 2.65 for the bird-in-hand principle, indicating a strong inclination towards causal thinking. The lowest score achieved for this principle was 2, suggesting a strong inclination towards causation, while the highest score reached 3.25, indicating a partial lean towards causation. Finally, the BRPLLs demonstrated an overall average score of 2.87 for the bird-in-hand principle, which indicates a strong inclination towards causal thinking. The scores ranged from a minimum of 1.75, indicating a strong preference towards causation, to a maximum of 4,

² Please refer to section 5.6 in chapter 5 for the interpretation of the scores

suggesting slight inclination towards effectuation. Several sub-themes emerged from the findings on this principle, as discussed below.

6.2.2.1 The strategic utilisation of resources in distressed ventures

Participants were asked whether, once they have visualised the solution, they then pursue the resource requirements (solution-driven) or whether resource requirements determine the solution they will pursue (resource-driven). Only 40% of TPs interviewed support causal thinking (solution-driven); 30% of TPs support effectual thinking (resource-driven) and the other 30% of TPs had a slightly agree score.

TPs who support the resource-driven statement mention that in BR, it is important for a practitioner to assess the available resources within the distressed venture to determine the solution to be pursued. A practitioner cannot have a BR plan without sufficient resources to make it work; without resources, it will be difficult to implement the BR plan. Participants therefore mention that they have no choice but to work with the resources at hand, however, if a practitioner does not have sufficient resources, that should not prevent them from finding additional resources. TPs further mention that the issue of resources in BR goes back to the concept of RP - a practitioner must always assess whether there exists a marketplace, a product, or means of production and ultimately take a resource-based view wherein they look at the resources that are within the distressed venture and combine these resources to achieve their solutions (either a BRiL or a rescue). By assessing the available resources, BRPs can then establish what other resources they need and determine what they can use to get other resources, such as working capital. Until a practitioner assesses the resources that they have, it becomes difficult to work on a meaningful solution:

“You can only do what you can do, so if you don’t have the resources, you can’t do more than that, you must use the resources you have but that doesn’t stop you to source and find additional resources as you need.” (TP 10, male)

“Well it goes to RP and whether I have a business. Do I have a marketplace, do I have the product, do I have means of production and if I unpack all of those things and take a little bit of a resource-based view, based on those resources I can start to assess whether I have the ingredients for a solution.” (TP 8, male)

Only 20% of BRTs supported the resource-driven statement. Echoing the same TP findings, emphasis is placed on assessing the resources within the distressed venture to shape their ultimate solutions. Furthermore, BRTs also mention that BRPs cannot give up on their solutions due to a lack of resources. It is their responsibility to find the resources to build their solutions. It is also noted that in distressed ventures, resources are generally limited, and the company may have developed a negative reputation that makes it difficult to obtain additional resources, such as financial support. As such, practitioners must make use of what is available to them, and these resources must advise the solution chosen:

“I think the solution is determined by the resources because you must be very much realistic in your plan, you can’t just envision things that are impossible to do. You must work with what is available to you, you must know the resources in front of you that you have.” (BRT 1, male)

Contrary to TPs and BRTs, three out of five BRPLLs (60%) took a slightly agreeable stance and cautioned against making assumptions regarding the availability of resources in BR. Participants mentioned a different process, where a practitioner first visualises the solution and then tries to pursue the resource requirements - which means they are solution-driven first. When they realise that there are no resources, they are forced to work with what they have (resource-driven). In this regard, BRPLLs may have a solution-driven approach in the beginning and later change to a resource-driven approach:

“You obviously can’t work under the assumption that with every distressed venture there’s going to be resources made available to you after that, investments or something like that. Sometimes you must make do with what’s in front of you and you must obviously come up with a solution that will work best with what you have.” (BRPLL 3, male)

“You always look at the first option, once you visualise it then you pursue the resource requirements. Then of course you determine in a very quick space of time that the resources are not there, then you are forced to work with the current resources to pursue the current solution. So, you can’t divorce the two from each other.” (BRPLL 4, male)

6.2.2.2 Solution-driven approach in business rescue

Participants were further asked whether the solution they chose determines the existing key management and expert competencies to remain in the venture (solution-driven) or whether the existing key management and expert competencies in the venture will determine the

solution for the venture (competency-driven). In the TP group, 40% agreed with the solution-driven statement, while only 10% agreed with the competency-driven statement; the other 50% took a slightly agreeable stance.

When it comes to competencies and management within the distressed venture, BRPs first come up with a solution and thereafter establish what resources are needed for that solution. Some solutions require closing certain businesses or selling part of the company and in this instance, some employees may lose their jobs. Other solutions require retrenchment strategies to be employed, where a practitioner limits redundancies and those not required by the new solution. Participants argue that in most cases, management may even be the source of the problem, and thus contribute to the demise of the company. Moreover, it is argued that employees are easily replaced unless it is a specialised industry, where finding a replacement may be challenging. Although employees may be easily replaceable and can be convinced to stay for a while, TPs find that it is always better not to base their turnaround on existing management, as they can easily be replaced. Additionally, just because there are people within the distressed venture, does not mean that the solution is designed to accommodate them. The solution is drafted in the interest of all stakeholders and, as such, practitioners find that the solution drives key existing management and expert competencies to remain in the distressed venture and not the other way around:

“If you are going to shove down certain businesses or you are going to close down certain businesses, you may well end up exiting certain management and competencies. I mean, very often you must sell best bits so save the other bits. You must have a solution and then decide what resources you need for that solution. You can’t build a solution around existing management.” (TP 6, male)

“Unless it’s such a specialised industry that it’s very difficult to find replacements. In general employees tend to be dispensable. You can always persuade them to stay for a short while. Employees are dispensable, you can find other people so you can’t base your turnaround on them, you can always find people to take their positions.” (TP 1, male)

A majority (80%) of BRTs agreed with the solution-driven statement. BRTs confirm the TP findings that existing management may have been the cause for the demise of the company and as such competencies and existing management cannot determine the solution to be pursued. Instead, the solution should determine who remains or exits the distressed venture.

Some employees may not be required by the new solutions and experts may be employed whenever necessary:

“I think the solution should drive the key personnel, expertise and competencies you require. The mere fact that the current existing management competencies got us to where we are would be a problem as far as finding a way to make my solution fit in them. So, for me it would be this is where I am, this is my solution, this is where we need to be going to and that will then inform who stays and who can be offered a handshake.” (BRT 4, male)

In the BRPLL group, 40% supported the solution-driven statement, wherein once they visualise the solution they pursue the required resources, while 60% took a slightly agreeable stance. BRPLLs who advocate for the solution-driven approach believe that the solution should drive the resources within the distressed venture. For example, if a practitioner has a specific strong department within the company but other departments are not as strong and resources are needed in those lacking/poor departments, then the practitioner must find those resources.

Similarly, if a practitioner requires funding or PCF within the distressed venture, that funding needs to be sought. Participants therefore mention that the solution needs to determine whether a practitioner has all the required resources for the execution of the BR plan because a practitioner does not want to be stuck with a plan that is not backed up by resources or the people to implement the plan. BRPLL individuals also mention that if they are envisioning a particular solution and there are certain skill sets needed (such as if practitioners have failing management), they see to it that they bring in additional experts to assist with the rescue. Participants assess the skills and expertise they have within the organisation and recruit consultants or additional experts if necessary:

“Well if you have a solution for the business but it does not have the necessary resources, then you must find the resources.” (BRPLL 1, male)

“If you’ve got your envisaged solution, then you need to source PCF and that’s the better way to do it.” (BRPLL 2, male)

“Often we bring together consultants and if I’m working on an airline matter for example, I’m not going to sit there and think about everything about the airline, I must bring in additional experts.” (BRPLL 2, male)

6.2.2.3 Resources and viability in business rescue

One theme that emerged from the findings of this study regards resources and viability (associated with RP in this text); 30% took a slightly agreeable stance when asked whether, once they have visualised the solution, they then pursue the resource requirements (solution-driven) or whether resource requirements determine the solution they will pursue (resource-driven). The study finds that there are cases where TPs work with available resources within the company and there are times when resources are not available and depending on the viability of the solution, practitioners can pursue the required resources. Practitioners indicate that if they are dealing with a company that is in distress which has a lot of opportunities (strong viability), then there is a lot they can do with that venture. In the case where a company has strong viability, it is easier to get new resources as the company has a lot of prospects. A new company under distress with a great future might simply need a BRP to share its vision/idea with the investors or employees and other individuals to have it turned around. If BRPs assess the distressed venture and find it to be viable despite the lack of resources from its existing owners or management, it becomes their responsibility to pursue the required resources, namely funding, skills or any other required assets:

“If the venture is under distress because it’s in its early stage of its lifecycle but there is a great future, then it’s easier to sell that idea or vision to the investors or employees and to get people involved.” (TP 2, male)

“You may look at a business and say its viable but if the existing owners or management don’t have the resources, in that case you will go and find them; whether be it money, skills or something else.” (TP 10, male)

The same principle is applied to PCF, where practitioners argue that having a viable plan can facilitate the acquisition of additional resources. TPs argue that if there is no cash in the business, a practitioner can obtain PCF because they have a viable plan or a strong strategy that they can use to convince PCF providers. Therefore, 40% of TPs are willing to take on a BR matter regardless of whether there are PCF providers. While BRPs acknowledge that PCF is fundamental to the success of the rescue, they mention that if a business has unencumbered assets and a strong business case (showing strong viability), PCF, in theory, should be obtainable:

“If you’ve got a plan that will work and the resources aren’t currently available, you can always look for additional resources. So, there might not be cash in the business accounts right now but I can go and get PCF.” (TP 9, male)

However, if the viability of the solution is weak, it becomes difficult to obtain funding. TPs must then rely on available resources within the distressed venture, which makes the rescue difficult. Practitioners mention that if they get involved in a company which has a product at the end of its life cycle (without a great future), then they must work with people within the distressed venture and also work with the available funding, which can be a challenge:

“If it’s a weak solution, let me say it this way, if the viability is marginal then it strongly relies on available resources. If it’s a strong viability then it’s easier to go after resources. So, if I get to a company and the viability is marginal or weak then it’s difficult from proper personnel, getting funding, just the overall rescue is more difficult. Then you are much more reliant on the resources that you’ve got.” (TP 2, male)

6.2.3 Affordable loss principle

Figure 6.3 provides an overall average score, as well as the lowest and highest score for the affordable loss principle obtained from three groups of participants. The first two groups are expert BRPs, namely TPs (10) and BRPLLs (5) and the third group consists of BRTs (5).

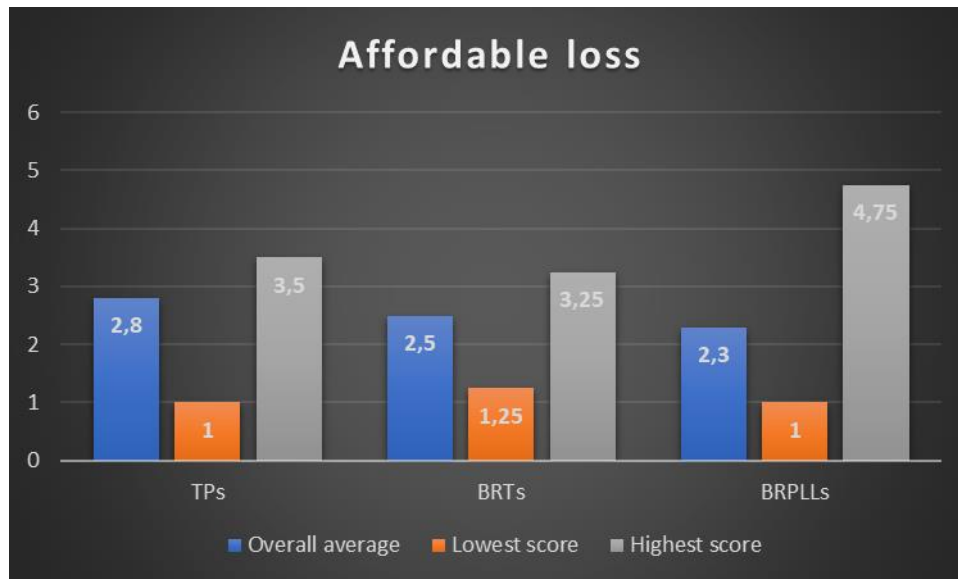


Figure 6.3: Affordable loss principle overall average scores obtained from participants ³

The affordable loss principle revealed an overall average score of 2.8 for TPs, which indicates a strong inclination towards causal thinking. The lowest score achieved was 1, which also suggests a strong preference towards causation and the highest score obtained was 3.5, indicating a partial lean towards for causal thinking. BRTs also leaned strongly towards causal thinking, evidenced by their overall average score of 2.5. Notably, the lowest score achieved was 1.25, which suggests a strong inclination towards causation. The highest score reached was 3.25, indicating a partial lean towards causal thinking. On the other hand, the BRPLLs demonstrated an overall average score of 2.3, indicating a strong preference towards causal thinking. The scores ranged from a minimum of 1, indicating a strong inclination towards causation, to a maximum of 4.75, suggesting a partial lean towards effectuation. Several sub-themes emerged from the findings on this principle, as discussed below.

6.2.3.1 Balancing the best-case and worst-case scenario in business rescue

When asked whether participants work on the best-case scenario and determine how it can be achieved or whether they examine the worst-case scenario for the distressed venture and work from there, 40% of TPs prefer working on the best-case scenario. Another 40%

³ Please refer to section 5.6 in chapter 5 for the interpretation of the scores

mention that they examine the worst-case scenario and work from there; the remainder took a slightly agreeable stance. Participants who prefer the best-case scenario mention that if they must present their plan to equity investors, they tend to paint a promising picture of the distressed venture. TPs mention that the BR process is a forward-looking process and as such they need to be upbeat in their proposals; they do not care much about what the worst-case scenario will be (liquidation).

Practitioners put their focus on achieving positive outcomes for everyone involved in the rescue and this supports the main aim of a rescue. Their concentration is on crafting strategies that will result in favourable outcomes and a successful turnaround. Practitioners explain that while their focus will always be on the best-case scenario, they acknowledge the importance of addressing challenges that may arise in achieving the solution. TPs mention that they cannot negate the worst-case scenario, especially when drafting their plans which must result in an outcome better than immediate liquidation for the affected parties. While the knowledge of the worst-case scenario will always be at the back of their minds, the solution that they analyse and work on is centered around achieving the best possible outcome for all affected parties:

“That’s why you do a BR and why you do a turnaround, the aim has to be to give the best possible return to affected parties that will not be achieved by immediate liquidation.” (TP 8, male)

“Yes, you look at the best-case scenario but you cannot overlook the worst-case scenario because those are the challenges that you are going to face to get to your best-case scenario.” (TP 3, male)

The best-case scenario is also favourable for 80% of the BRTs, who mention that BR’s goal is to get the company out of its distressed position and to bring it into a better state of sustainability. BRTs state that they do not tend to focus on the worst-case scenario much (similar to TPs). They believe that if a practitioner focuses on it, they may inadvertently bring the business full-loop with the worst-case scenario. When a company is taken into BR, a practitioner must make sure that they provide a solution that is most likely to work (even though it may ultimately not work), as the intention must always be to turn a venture around:

“I think the whole idea of the BR process, I don’t think the idea was just to get out of the wood works. I think the idea was get out of the wood works, stay head above water but

more so make sure that the business still works. So, I think it's the best-case scenario and work towards making sure that is achieved for the business.” (BRT 4, male)

Among the five BRPLLs, 80% expressed their support for adopting the best-case scenario approach when dealing with distressed ventures. Similar to TPs and BRTs, BRPLLs mention that the focus is always on the best-case scenario for stakeholder buy-in and support, although they will always keep the worst-case scenario in mind. The worst-case scenario is mainly used as an additional strategy to convince other parties to support the best-case scenario and also showcase the consequences if the best-case scenario is not voted on. Similar to TP findings, the focus is on achieving the best possible solution for all affected parties and to achieve a BRiL:

“As a turnaround practitioner, you look at the best-case scenario, you will always have the worst-case scenario in your mind, we use the scenario in our mind to convince certain parties to come to the party, demonstrate to them that guys this is the best scenario in fact here is the worst-case scenario if you don't support the best-case scenario.” (BRPLL 4, male)

Participants were further asked whether their decisions are driven by what can be gained by the envisioned solution or whether their decisions are driven by what they can afford to lose. Most (90%) of the TPs agreed and strongly agreed with the focus on gains for the distressed venture to achieve the envisioned solution. TPs mention that in BR, the focus must always be on gains for the distressed venture to ensure that a better outcome than liquidation is achieved for all affected parties. In focusing on gains, TPs hope to save jobs where they can, minimise what employees can lose and maximise the returns or gains for shareholders and creditors. Practitioners highlight that the BR space is inherently high-risk, and their decisions revolve around managing and mitigating risks. Therefore, practitioners cannot make high-risk decisions to begin with; priority is placed on saving the business and implementation of the solution followed by other things:

“You are not going to make too risky of a decision in the first place but first price always needs to be how you can save the business or how you can implement your solution. Everything else needs to be secondary” (TP 4, male)

“If I want to save a company and there are 700 employees, I'll probably say I don't want them to lose the employment. So, for that part, it is important to minimise what they lose,

hopefully in the same solution by minimising what employees might lose you maximise what creditors and shareholders gain.” (TP 2, male)

The majority of the BRTs (80%) agree and strongly agree that their decisions are driven by the potential gains achievable through the envisioned solution for the distressed venture. Although little evidence was gathered to substantiate their agreement with this statement, BRTs mention that they look at the gains and focus on things that will assist them in the rescue process to achieve the envisioned solution. Similarly, 80% of the BRPLLs indicate support for their decision being driven by gains for the distressed venture, where their focus is on achieving a positive outcome from the solution:

“I will look for something that is positive, something that is tangible that I will look at and something that will also help me in doing my intervention or bring in a solution.” (BRT 3, male)

“We always look for a better outcome.” (BRPLL 5, male)

The other 40% of TPs agree with the statement of examining the worst-case scenario and working from there. TPs assert that because in BR, BRPs work from a distressed situation, they find it practical to work from a worst-case scenario perspective and build from there. Moreover, given that BRPs must use their BR plans to convince creditors to vote on them, TPs emphasise that in most instances’ creditors have been told stories about the distressed venture and as such putting only the best-case scenario forward may not be convincing for them. To gain creditor support, BRPs prefer to present the worst-case scenario as a possible outcome if the best-case scenario is not supported:

“Because you must sell the BR plan as well, you need to remember that creditors need to vote on your plan. They have been told some stories and promised for a long time so if you sort of put a best-case scenario, I think that a lot of time you get people that talk about the solution that is achievable.” (TP 2, male)

6.2.3.2 Risk and the stakes involved in business rescue

While participants tend to focus on potential gains for all affected parties in the distressed venture, TPs state that they do not view negative outcomes through rose-coloured glasses, as stakeholders have a lot to lose if the business fails. TPs mention that, in BR, potential lenders are presented with an opportunity in the distressed venture, however, they are the

ones who take on the risk of investing. In this case, the risk is not taken by TPs personally as they rarely decide how much to invest. Whilst it is ultimately the creditor's decision to invest, BRPs do everything they can to secure these resources:

"We present an opportunity to potential lenders and they make a call on whether that risk is worth it to them. It's rare that we get to decide how much money goes in, that's the creditor's decision but I do think we try get the resources we want even if it's risky." (TP 9, male)

Participants state that BRPs must mitigate risks and losses and ensure that the company is left in a better position than when they began the BR process. Therefore, some practitioners choose not to risk more money, as they have the creditors in mind. Participants mention that in BR, there is a high chance that the distressed venture may slide into liquidation due to unforeseen circumstances, thus putting the company in a worse position. In this case, the practitioner may be sued, which would tarnish their reputation and resume' and their BRP fees may not be paid:

"I would generally not risk more money than I am willing to lose in pursuing a specific solution purely because I obviously need to be cognisant of the risk and the outcome for creditors. So yes, sometimes you must take one step back or two steps but you really must manage that process because there's always a risk. Something may suddenly go horribly wrong and then you enter into liquidation and you are in a worse situation then somebody is not only going to sue the practitioner but it's not going to look good on his resume." (TP 5, male)

"If you just take it from the BRP's side, I mean me personally there is probably a risk for my fees because of when the BR doesn't work." (TP 2, male)

Creditors, such as suppliers, have a lot to lose if the BR fails. TPs observe that these suppliers, having invested in the business, are usually willing to negotiate the settlement of any historic debt to continue supplying the business. Their willingness comes from the intention to keep the business afloat so that they can recover their investments and settle their financial obligations. Similarly, TPs observe that employees also have a lot to lose, facing challenges such as delayed and unpaid salaries. Regardless of these challenges, they continue to show up for work hoping to safeguard their jobs and livelihoods:

“The employees have a lot to risk because you find that employees still go to work even if they are not paid or not paid on time or paid late because they have got a lot at risk. Similar with creditors, if they’ve got a lot invested they will probably say let’s resolve this historic debt in a plan and will probably still supply you because we want to keep the business going.” (TP 2, male)

6.2.4 Crazy Quilt

Figure 6.4 provides an overall average score, as well as the lowest and highest score for the crazy quilt principle obtained from three groups of participants. The first two groups are expert BRPs, namely TPs (10) and BRPLLs (5) and the third group consists of BRTs (5).

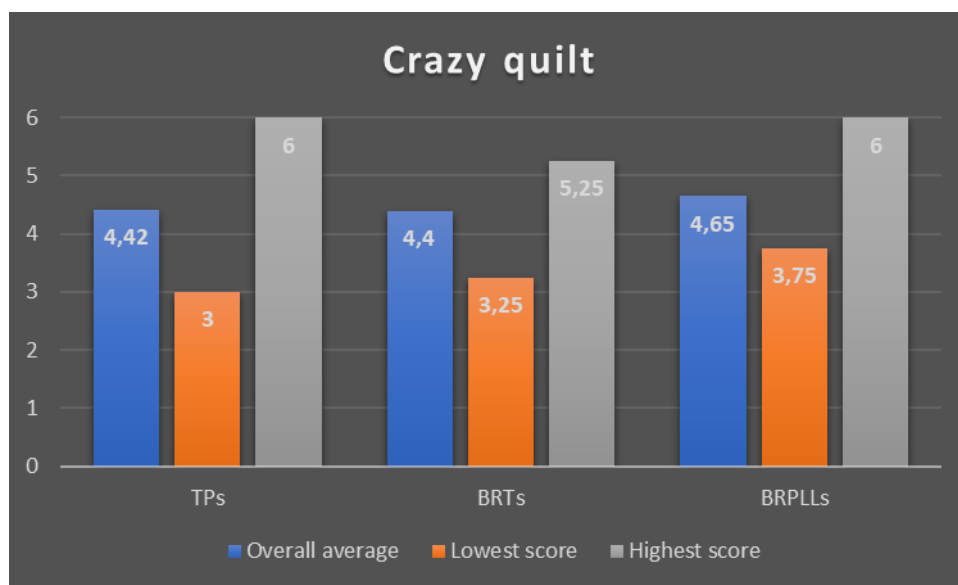


Figure 6.4: Crazy quilt principle overall average scores obtained from participants ⁴

In relation to the crazy quilt principle, TPs obtained an overall average score of 4.42, indicating a slight inclination towards effectual decision-making logic. Their lowest score was 3, suggesting a partial lean towards causation, while their highest score reached 6, reflecting a strong inclination towards effectual thinking. BRTs obtained an overall average score of 4.4, also indicating a slight inclination towards effectual decision-making logic. Their lowest score was 3.25, suggesting a partial lean towards causation, while their highest score

⁴ Please refer to section 5.6 in chapter 5 for the interpretation of the scores

reached 5.25, reflecting a strong preference towards effectual thinking. BRPLLs demonstrated an overall average score of 4.65, also indicating a slight inclination towards effectual decision-making logic. While their lowest score of 3.75 suggests a partial lean towards causation, their highest score of 6 highlights a strong preference towards effectual thinking. Several sub-themes emerged from the findings on this principle, as discussed below.

6.2.4.1 Stakeholder consideration and creditor involvement in business rescue

Participants were asked about their approach to considering stakeholders in the decision-making process during BR. Specifically, they were asked whether stakeholders with key voting power were considered the only “real stakeholders” in the BR process or if all stakeholders were to be considered in the decision-making process, regardless of their voting power. Among the TPs interviewed, 60% strongly support the statement that all stakeholders should be considered in the decision-making process, 20% show a preference for voting stakeholders and the other 20% take a slightly agreeable stance. TPs place heavy emphasis on building consensus around the solution, which can only be done if everyone is included in the process. TPs mention that the staff may not have voting rights but should be involved in the decision-making process. Moreover, BRPs are obligated by the Companies Act to ensure a balance of all stakeholder interests and as such everyone should be given a fair opportunity to contribute towards the solution:

“You never know where the solution is going to come from and all stakeholders have the opportunity to contribute to the solution.” (TP 10, male)

“In my view, that is what the act requires us to do in terms of section 7k. Employees, for example, have no voting power unless they are in arrears with their salaries but they are very important stakeholders.” (TP 7, male)

The majority (80%) of BRTs interviewed strongly support that all stakeholders should participate in the BR process. Confirming the findings by TPs, BRTs mention that it is important to consider everyone, including the employees, as they are considered a crucial stakeholder group. One of the objectives of BR is to save jobs; thus, BRPs must take the initiative to protect the employees and keep them involved in the process. Moreover, BRTs emphasise that although their plan caters for all stakeholders regarding the BR plan, the voting creditors do take precedence, and their importance cannot be negated. Without

creditors' approval of the plan, BRPs have no plan to work with. BRTs also emphasise that as much as BR is a creditor-driven process, a practitioner must continuously strive to balance the rights of all stakeholders:

“All stakeholders are considered because you don’t prefer one creditor over another and also in terms of employees and staff, they also form part of the stakeholders so we also try to save as many jobs as possible in our company.” (BRT 2, female)

“One needs to understand that yes you can have happy creditors but if the employees are not happy then your plan is a waste of time. There are so many moving pieces, you know the unions, the industry customer, so as much as you want to prioritise the one stakeholder as the main stakeholder, balancing out the interests of all across is important.” (BRT 4, male)

Of the BRPLL interviewed, 80% strongly support the statement that all stakeholders should participate in the BR process. Confirming the TP findings, participants mention that, although employees do not have voting rights or voting power, they are the key stakeholders in implementing the BR plan in the absence of the BRP - who is only in the distressed venture for a short period. Employees also hold key information that BRPs need to craft a viable solution for the venture. BRPLLs mention that important stakeholders in BR also include suppliers of raw materials, creditors and the technical team who assist in the successful execution of the BR plan when involved:

“So, stakeholders are the clients, your suppliers, they must supply you with the raw materials, services, to give you the product, those are critical stakeholders outside of creditors is suppliers, your clients and it’s your key technical team, the guys who can execute your turnaround plan. That determines the sustainability of your plan.” (BRPLL 4, male)

Of the TPs interviewed, 20% express the viewpoint that they regard stakeholders with key voting power as the only real stakeholders in the BR process. These TPs argue that the BR process is creditor-driven and ultimately creditors are the ones who get to vote on the plan and as such take precedence. While practitioners do not negate the importance of involving everyone in the process, they mention that stakeholders with voting power are much more important as they can fund the rescue and vote on the plan. Although the focus is always on

balancing all stakeholder rights, saving jobs and the economy, participants mention that their plan caters to the secured creditors, given the creditor-driven nature of the BR process:

“Whilst you need to make sure that all stakeholders are catered for and the main goal should always be saved jobs, save the business, keep the economy going, the realistic part of it is if you have a controlling vote by a creditor who is even unsecured, you cannot publish a plan that does not cater to those shareholders.” (TP 4, male)

“Usually the stakeholders that have the key voting power are usually the ones that can fund the turnaround and are usually the ones that can say yay or nay to the plan. So, while everybody is important, creditors are more important than the others.” (TP 1, male)

Only one BRT (20%) indicates a preference for voting creditors. Confirming the TP findings above, this BRT mentions that voting creditors take precedence given their ability to vote and approve the BR plan. Similarly, one BRPLL (20%) participant showed a preference for voting stakeholders. This participant mentions that BRPs spend the majority of their time dealing with voting creditors; whilst employees and unions are important, creditors do take precedence. The focus tends to be more on the stakeholder with decision-making power, but the plan should not alienate the employees who will be running the company. BRPs must, therefore, balance stakeholder interests in what they are proposing to ensure that the company is not set up for failure again:

“It’s very different because your stakeholders with a voting power obviously you need them to cast the plan, to approve the plan.” (BRPT 2, female)

“It’s a reality, you not going to spend 80% of your time dealing with 20% of the voting interest. You going to spend 80%, I’m not saying you don’t speak to all stakeholders but you definitely are going to give far more preference to whoever has a significant vote and interest.” (BRPLL 1, male)

Participants were further asked whether they disliked or preferred the use of a creditors committee’s participation in the BR process. While 40% of TPs prefer the creditors committee, 60% dislike its participation. TPs who prefer the committee’s participation mention that their preference depends on the size of the creditors. Participants mention that a creditors committee only makes sense in larger engagements with many creditors involved, such as in listed companies. In these larger engagements, it becomes impractical for the BRP to engage with every single creditor individually. Participants find that a creditors

committee can add a lot of value when it can serve as a platform to discuss possible options in outcomes, especially given that some creditors have been in the industry for years and may be well informed about the sector in which the distressed venture operates. The creditors committee may also provide insight into the business. TPs, therefore, use the committee to help them communicate widely and to help explain the possible variables going forward:

“Just in terms of the practicality in terms of the practitioner time, you can’t speak to thousand creditors so, in that scenario I’ll consider the creditors committee, for me the banks and other main creditors, that’s the group that will have a vote and determine the BR.” (TP 2, male)

“When you come to the listed level or your larger corporates, it’s very useful specifically with your major secured creditor, it’s very nice to use them as some sort of a hearing boardroom just to discuss possible options in outcomes and for them to come back to me because they know the history of the sector and some of them might have been in the game for a very long time.” (TP 5, male)

More than half (60%) of BRTs agree with the preference for the committee’s use, whereas 40% take a slightly agreeable stance with the two statements. Participants who prefer the committee’s participation mention that it can assist the BRP in getting a sense of what creditors want and also solicit their buy-in:

“You must use creditors’ committee to get a general buy-in and reality check.” (BRT 3, male)

Again, more than half (60%) of BRPLLs agree with the preference for the committee’s use, while 40% took a slightly agreeable stance. Offering a different perspective from that of TPs, BRPLLs prefer the creditors committee’s use as it reduces both legal action against the company as well as hostile behaviour within it, whilst creating a transparent rescue process. Moreover, the committee provides valuable input to the plan and makes it easier to communicate, especially regarding serious issues where there are a lot of creditors. This confirms the findings of the TPs above:

“I prefer the creditors committee to participate because that also alleviates a level of litigation and hostility, it increases transparency in the manner in which you operate.” (BRPLL 4, male)

“They represent the general body of the creditors so it’s easy to get things across the line and you are also able to manage and get managed stakeholders through them instead of engaging every creditor which is impossible, especially in large rescues.” (BRPLL 5, male)

Those TPs who do not prefer the creditors committee’s use mention that they avoid it in a small consortium of creditors. TPs are of the view that there is a misconception about the role and the function of the creditors committee which is often misunderstood by the creditors themselves. They find that some creditors may assume that the committee serves a different agenda rather than the development of the BR plan:

“If it’s a small BR with few creditors, we can’t have a creditors committee just for the sake of having a creditors committee, that’s a waste of time.” (TP 2, male)

The 40% of BRPLLs who took a slightly agreeable stance regarding the preference of the creditors committee mentioned that it is a complete waste of time and effort and thus does not work. Confirming TPs’ findings, participants mention that this committee serves no purpose in smaller engagements with few creditors. They mention instances where creditors use this committee to serve their interests instead. Participants add that the creditors committee is the biggest cause of unhappiness in these kinds of processes and indicates that the reasons for its existence are misunderstood:

“I dislike the existence of a creditors committee extremely. Number 1, it is an absolute waste of time and effort, it’s never worked and it doesn’t work. It doesn’t work because if you have 2 or 3 members on that committee they are not servicing the interests of the broader creditors.” (BRPLL 1, male)

6.2.4.2 Stakeholder engagements and collaborative partnerships in business rescue

TPs also mention that collaboration with stakeholders is important in BR. Half (50%) of the TPs assert that they form partnerships with stakeholders who are willing to share the risks and benefits within the distressed venture. BRPs engage with people who understand the company and also bring in potential partners who may play a role in the future of the company. Critical suppliers receive special attention from BRPs, given that the role they play is vital; this includes supplying the distressed venture with essential needs. These suppliers are viewed as strategic partners who can support the company during distress:

“It’s a lot easier to engage with people who understand the company and the business and are potential partners.” (TP 6, male)

“So, you need to look at who can supply most of the items I could buy and perhaps nominate a specific stakeholder or supplier that might be more useful for me and then treat them as critical suppliers or critical stakeholders within my process.” (TP 5, male)

Most of the BRTs (80%) appreciate interacting with stakeholders who are willing to share the risks and benefits within the distressed venture. They mention that the BRP should create a plan that considers everyone, including the employees, potential funders, creditors, customers and any other critical player that will contribute to the solution. The practitioner must ensure the interactions to obtain buy-in from all these affected parties:

“You must not be biased in the system, you need to get everyone involved, everyone who is bringing in a solution.” (BRT 5, male)

Similarly, 80% of the BRPLLs also advocate for partnerships, mentioning the importance of interacting with stakeholders within the distressed venture as they may possess knowledge about the company. Participants also value the need to bring in new people with different ideas and skills to make the venture a success. Moreover, it is advised that BRPs must employ a sniper approach in terms of whom they are going to approach, where they must, at some stage, identify stakeholders willing to support the solution:

“I think you need to engage with those that were previously involved because they’ve got the institutional knowledge, you also need to identify bringing in new partners to bring in new ideas and also new management skills, new expertise, so you also need all of those things and that is dependent on the solution that you are bringing in.” (BRPLL 5, male)

In addition, 70% of TPs emphasise the importance of engaging with various stakeholders before the publication of the BR plan. TPs realise that when they keep stakeholders engaged in the process, the likelihood of success increases. TPs understand that keeping everyone involved and informed, being transparent in the process and seeking buy-in before publication of the plan, can increase the chances of the plan being accepted. Regular consultation with all stakeholders is regarded to be a crucial requirement by the Companies Act and this must be adhered to:

“You need the buy-in of your creditors even before you publish the plan, so what we normally do when I publish a plan is I know the plan will be approved purely because I’ve

tested the water, I've looked at the results and we've kept people informed because of the transparent nature of our process so I would not publish a plan if I know that creditors might not approve it." (TP 10, male)

Of the BRTs, 60% show support for interacting with various stakeholders to determine a possible solution and compiling the BR plan. Similar to the BRP findings, BRTs state that it is important to engage with everyone before the plan is compiled. These interactions begin at the investigative phase - once a practitioner is at the BR development phase, all consultations have been conducted. Participants mention that BRPs are always cognisant that creditors need to vote on the plan. Thus, the interactions must already have taken place before the compilation of the plan and their views and opinions would already be incorporated into the plan:

"For me the interactions would have happened throughout the investigations etc and once I'm at a BR plan, I must have a plan, I can't be going and saying what do you think the plan should be. I would have had the interactions with them prior to the investigations, what do you think, what do you like etc in arriving at my proposed plan." (BRT 4, male)

More than half (60%) of the BRPLLs show a preference for interacting with various stakeholders to formulate the BR plan. Confirming the TP findings, BRPLLs also engage broadly with all stakeholders and they do so in adherence to the Companies Act, which requires that everyone be involved in the process. BRPLLs caution against publishing the BR plan without engagement as this plan will be voted against. In this regard, all creditors must be consulted, and their inputs incorporated to avoid delays in the adoption of the plan:

"You must have an interaction with various stakeholders before you compile a rescue plan and in fact it's a requirement of the companies' Act that you do so. You must have cognisance of everyone's view and to balance those rights in the plan." (BRPLL 2, male)

6.2.5 Lemonade principle

Figure 6.5 provides an overall average score, as well as the lowest and highest score for the lemonade principle obtained from three groups of participants. The first two groups are expert BRPs, namely TPs (10) and BRPLLs (5) and the third group consists of BRTs (5).

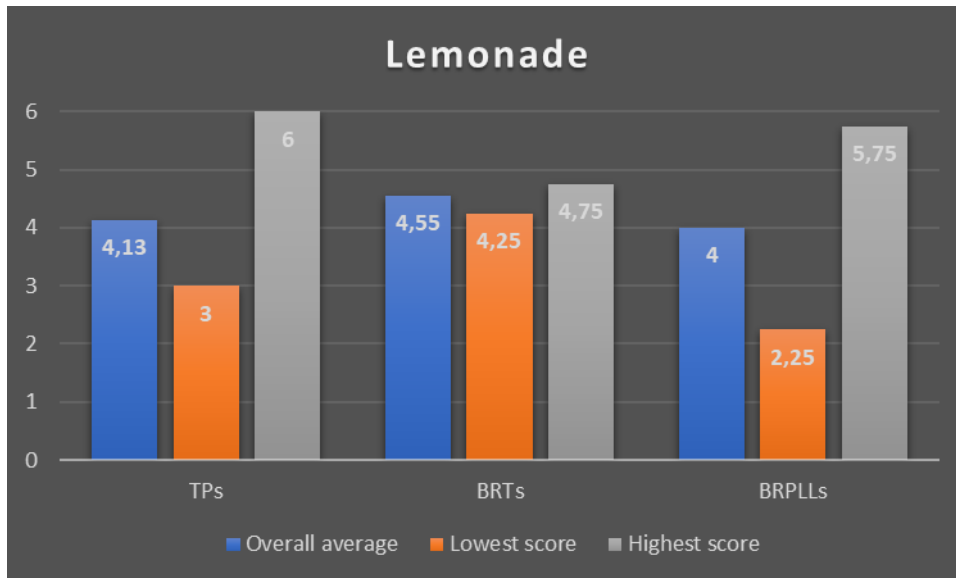


Figure 6.5: Lemonade principle overall average scores obtained from participants ⁵

For the lemonade principle, TPs’ overall average score was 4.13 which indicates a slight inclination towards effectual thinking, with the lowest score of 3 suggesting a partial lean towards causal thinking and the highest score being 6, indicating a strong preference towards effectual thinking. BRTs’ overall average score was 4.55, showing a slight lean towards effectual thinking. The lowest score was 4.25, also indicating a partial lean towards effectual thinking and the highest score of 4.75, showing a slight inclination towards effectual thinking as well. BRPLLs had an overall average score of 4 showing a partial lean towards effectual thinking, with the lowest score of 2.25, which indicates a strong preference towards causal thinking, while the highest score of 5.75 suggests a strong inclination towards effectual thinking. Several sub-themes emerged from the findings on this principle, as discussed below.

⁵ Please refer to section 5.6 in chapter 5 for the interpretation of the scores

6.2.5.1 Strategies for implementing business rescue plans

Practitioners were asked whether (once the BR plan has been accepted), they implement/pursue the relevant strategies or they are open to changing circumstances in implementing their strategies. Some (40%) of TPs mention that if a BR plan is adopted, they stick to it as per the Companies Act. Only 30% of TPs show a willingness to change the BR plan due to changing circumstances if the plan has not been adopted while the remaining 30% take on a slightly agreeable stance. TPs who stick with an adopted plan mention that they have a legal obligation to implement it and if a practitioner wants to change strategies then a new plan must be sought and thereafter implemented:

“In terms of the Act, the BRP is obliged to do everything in his own power to implement the adopted plan, the amendments to the BR plan is most probably the most difficult one at the moment in BR.” (TP 5, male)

“There has been a decision recently that once a plan has been accepted, that’s the plan you must implement. You want to change the strategies, you got to get a new plan. You have that plan, you got to implement that plan. You don’t have the ability to change the basic plan for example if you want to go from a BR into a liquidation and you already got an accepted BR plan that gives you another outcome, you’ll must have a meeting with affected parties in order to make that change.” (TP 6, male)

Many (60%) of BRTs showed a preference to stick with an adopted plan. These BRTs mention that once the BR plan has been accepted, to fundamentally make changes to the plan, a practitioner must get a new approved plan thus confirming TP findings. It is argued that if circumstances change, they must be communicated with the affected parties so that they can be incorporated into the new plan which must be voted upon and thereafter implemented:

“Once your plan has been accepted, to fundamentally change the plan you must go back to the stakeholders and get a new plan approved. I would lean towards sticking with the plan because that’s what has been approved.” (BRT 3, male)

“Once the plan has been accepted, you need to stick with your plan even though there are changes. For me it’s important that once you sign off the plan, you need to stick to it and make sure that whatever you want to pursue is implemented.” (BRT 5, male)

Among the BRPLLs interviewed, 80% indicated that once a BR plan has been adopted, they must stick with it as required by the Companies Act. Also confirming the TP findings above, participants mention that BRPs are confined by the Companies Act to implement the plan once adopted. An adopted plan is legally binding on all creditors including the practitioner. Participants express their willingness to make changes to the plan until it is accepted (only under the development stage) as they do realise that circumstances change and these changes must be accommodated for in the plan. Participants acknowledge that the BR space is volatile and requires BRPs to be open to changing circumstances and change their way of thinking:

“The highest court in the land says you can’t change the plan. So once a plan has been adopted, you are confined within the four corners of that document to implement it for the company.” (BRPLL 3, male)

6.2.5.2 Adaptability and flexibility in business rescue planning

Contrary to TPs who stick with the adopted plan, 30% of the trainees showed a willingness to change the BR plan due to changing circumstances if the plan is under the development stage and has not been adopted. Participants mention that circumstances change and a BRP must always be flexible and adaptable to these changes. However, they caution against changing the plan if avoidable, as this may present new risks. When presented with new information that is fundamental to the plan, these changes are incorporated if they will have a positive impact on the overall outcome of the rescue. TPs continue to engage and consult with stakeholders and should there be anything that emerges that they were not aware of, they show a willingness to change their plans. It is also noted that if TPs discover something fundamental that may hamper the plan, they are open to sharing this change with the stakeholders to find a way forward:

“You need to leave yourself room to change the BR plan. With amending the BR plan, you need to leave yourself room to change the BR plan, things change but amending a plan comes with a bunch of new risks.” (TP 4, male)

“I will always change the plan and that is part of the consultation process and transparency in our process so I continue to speak to stakeholders and if there is something that arises from our discussions or we find something we weren’t aware of

then obviously that will make a difference and if it makes a difference in our proposed model then I will change it.” (TP 5, male)

Only 40% of BRTs are open to changing circumstances once a plan has already been accepted. This is contrary to the TP findings, as most of them were not informed of the difference between an adopted plan and a plan under the development stage. These BRTs mention that things change a lot in BR and as such BRPs must be willing to change their plans to incorporate new information. BRTs caution against rigidity and they mention that rigidity results in an obsolete plan which may put the business into a worse position of distress:

“Things are changing, business changes every single day, circumstances etc. Those obviously will change and almost require that the plan incorporate those changes. So, from my perspective I would take those into account but some I think as a practitioner you need to be comfortable with the fact that they will change given the advanced nature of the implementation of the adoption of my plan.” (BRT 4, male)

6.3 THEME 2: PERCEPTIONS OF INDUSTRY BY PARTICIPANTS

In this section of the chapter, the researcher addresses the second research question, which focuses on whether practitioners apply any of the effectuation elements in the industry. This is then followed by addressing the question of whether they apply these elements deliberately, unknowingly or otherwise by exploring the reasoning behind BRP’s decision-making in the BR industry. Participants were asked to answer this question based on their perception of how they think other BRPs are doing things to have an in-depth understanding of industry practices. As with the first research instrument, participants had to choose between two statements presented to them and thereafter qualify these statements, although this time they did not rate the strength of their agreements and thus no percentages are provided in this section. The following findings, extracted from the evidence collected, present the overarching sub-themes under the theme *Perceptions of industry*, derived from the data of TPs, BRTs and BRPLLs.

6.3.1 Pilot-in-the-plane principle

Participants were asked about their perceptions of other BRPs’ solutions for the distressed venture. They were asked whether they think other BRPs have an idea of the solution from

the first meeting with the management (idea-driven) or whether they decide on the solution once they have conducted their investigations (investigation-driven). A majority of the TPs mention that they think that the ability of a BRP to come up with a solution often hinges upon experience in the industry. TPs mention that they do not believe that most practitioners conduct their investigations, especially novice BRPs who are new in the industry and would most likely assume to have a solution after the first meeting with management. Participants also mention that inexperienced practitioners are more likely to think they have a solution in mind only to find out they do not.

TPs are of the view that practitioners who have been around for a long time (insinuating that they are experienced), will most likely investigate matters before deciding on the solution for the distressed venture. However, they believe that in most cases, inexperienced BRPs will walk into a venture with a solution in mind based on what they have been told – contributing to many rescue failures. Participants are of the view that a good BRP investigates and assesses the information provided to understand the true state of the company's affairs:

“I would like to think that they are like me and they do what I do but I am not convinced. Like I said earlier, it depends on the experience you have. You may find that for example student practitioners after the first meeting think they have an idea of what the solution is and if you look at the more inexperienced practitioners they might think that they know the solution but they might be wrong.” (TP 2, male)

“Those that have been around the block, a couple of times are on the right-hand side of this question (investigation-driven). I think that some go in, take what they are told at face value and do that which is why there are so many failures. Until you've seen the details, it's very difficult and you have to satisfy yourself that you have been told the truth. I think most of them are in block one (idea-driven).” (TP 6, male)

TPs further mention that good BRPs invest their time in investigations, gathering information and focusing on the development of their strategies. These kinds of BRPs understand that the solution may change along the BR process and as such they are always willing to change their intuition about the solution as new information becomes available. On the other hand, inexperienced BRPs tend to rigidly stick to one solution, base their solutions on what they are told by management and develop their solution from there without conducting any investigations. For these BRPs, their main aim is to ensure that they have completed their tasks even if no investigations were done. In addition to a lack of investigations, BRPs also

mention that a lot of BRPs in the industry do not conduct pre-assessments before taking appointments; thus, many companies end up in BR even though they are not supposed to be. This then contributes to BR receiving a negative reputation:

“I think the good BRPs do it more in terms of taking longer to develop the strategy so they have more information and I think the good BRPs will do that on purpose. They will be consciously open to changing their initial gut feeling based on new information. I think the poor BRPs will go in from either being stubborn or just in a rush, they will probably walk into a meeting, chat with the management and say that’s the plan.” (TP 9, male)

“I think most of these BRPs go into these without even doing the pre-assessment so once they have been appointed that’s why we see a lot of companies going into BR, companies that are not supposed to be in rescue because they are not even candidates. That’s why we are getting a bad reputation about BR.” (TP 1, male)

Confirming the TP findings, a majority of the BRTs also mention that some BRPs think they have an idea of the solution from the first meeting with management without any investigations being done. Such BRPs have a preconception of what the solution must be and based on what they are told by management, they then start formulating without confirming what they are told. In essence, incompetent BRPs are often surprised when they receive new information whereas competent ones invest in thorough investigations:

“This is based on just reading up and reading up on rescue, I think rescue practitioners out there seem to go in with a preconceived solution which then once you have a meeting with management somehow just gets confirmed in a way and then you run with that.” (BRT 4, male)

“The ones (BRPs) that have been successful do a very thorough study of the distressed venture, the one that I was involved in because it was a client of ours, the practitioner wasn’t competent enough and often surprised by new information or the fact around trying to figure out what’s the best way of doing things.” (BRT 3, male)

6.3.2 Pilot-in-the-plane moderators

TPs shed some light on their perception that a lot of practitioners are idea-driven due to the educational background they have. Participants argue that some participants from certain backgrounds (such as legal) tend to be idea-driven whereas people from a financial

background are more prone to conduct investigations. Participants, therefore, argue that educational background and turnaround experience play a big role in informing the solution choice. In essence, TPs claim educational background and experience as contributors to the BR success rate:

“This depends on what sort of background you have, if you have a legal background you’ll probably go 1 (idea-driven) but if you’ve got a financial background, then definitely 2 (investigation-driven). So, I’m now talking on behalf of other BRPs. Some of these people are so weak, that’s why we are sitting with a successful BR rate of between 12 and 15%.” (TP 5, male)

“They don’t think about it, the majority of BRPs have never done a turnaround in their lives and they have done a lot of liquidations and they may have administered a court process or a legal process but to turn a business around even the large businesses they have just not done it. So, they go in there and in most cases if it’s not a liquidation or an oddly wind down an alternative jumped out and bit them.” (TP 8, male)

TPs also mention that many BRPs in the industry take on matters based on various motives, such as looking for employment. In addition, the Companies Act creates pressure for BRPs to publish a plan in a short time frame which results in incompetence when it comes to the development of the plan – as such, BRPs in the industry tend not to apply their minds. Moreover, people such as BRPLLs only care about pursuing BRP fees when taking on appointments and will simply present a desktop plan; thus, the issue of inertia in the industry:

“I think a lot of them do it because they want the work. They will take the assignment because they want the work and make the decision later about whether they should have done that or not.” (TP 6, male)

“There is pressure, the Act itself with the 25-day rule does not allow BRPs to apply their minds properly and that causes pressure. There’re two things there, there’s pressure on the desktop plan and the other issue is the issue of not real BRPs, people who are attorneys or liquidators on this side and rescuers on this side they’ve got lots of files, he’s got 10 appointments, he doesn’t care really, he’s going to look at the numbers, do a desktop, publish a plan see how much money he’s going to make out of the thing. The plans are also pretty standard so it’s easy to cut and paste the plan so to answer your question, there’s also an issue of laziness.” (TP 3, male)

As stated, many TPs feel BRPs accept assignments based purely on the fees. In this instance, BRPs take on an appointment to simply drain the distressed venture financially and thereafter pass it to other colleagues in the industry who specialise in liquidation. Once again, due to their inexperience in conducting turnarounds, these BRPs most likely opt for BRiL or liquidation as the solutions to be pursued:

“People just want an opportunity to earn a few bucks and they don’t take the appointments for the right reasons. I mean if there is no RP of the business being saved then don’t do it or otherwise get the thing in liquidation. So, they first suck it dry and then pass it on to a friend who is a liquidator and then they share a fee which is ridiculous what happens.” (TP 5, male)

Confirming the findings by TPs, BRTs also criticise the appointment of BRPLLs as they put companies that are not potential candidates in rescue. Participants mention that a lot of these BRPs pursue BRP fees and when they take appointments, the motive is for them to benefit financially rather than maximising returns for creditors. BRTs, however, add that the reason why other BRPs may not investigate is laziness, where thorough investigations are not conducted to understand the causes of distress that the company is facing and develop a solution from there:

“When you talk about liquidation BRPs, I would disregard their view in totality because if a company goes into BR but it should be in liquidation or a liquidation BRP gets involved, they look at the finances and see how they can maximise returns for themselves and the secured creditors because that’s how they do it.” (BRT 3, male)

“On the one hand I think it’s just not applying, it looks like it’s them not willing to apply their minds.” (BRT 4, male)

Also confirming the TP findings above, BRPLLs mention that experience and qualifications play a big role in the industry. Participants mention that there is a disconnect between what turnarounds require and the qualifications and experience that some BRPs possess which are not suitable for turnarounds. Participants are of the view that in the industry, they are not grooming turnaround specialists who know how to implement the requirements of the Companies Act at times. Sometimes, other BRPs are appointed to fix mistakes created by co-workers in the industry:

“I think it’s a question of skills and experience within the turnaround environment. You know you find that if you look at the list of practitioners and you look at the qualifications, I don’t think they are as relevant in a turnaround scenario.” (BRPLL 4, male)

“My opinion over the years and I have been appointed in BRs where I had to come and clean up the damage of colleagues. I truly don’t believe that we are breeding turnaround specialists who can use the provisions of the Companies Act and moratorium to effectively do turnarounds.” (BRPLL 5, male)

6.3.3 Bird-in-hand principle

TPs were further asked about their general perception of how BRPs in the industry approach resources. Participants were asked whether they think other BRPs let resource requirements determine the solution to be pursued or whether, once they have visualised the solution, they pursue resource requirements. A majority of the participants mention that many BRPs work with the available resources; whilst several advertise that they need PCF or set up distress funds, thus working with available resources. Participants mention that some are likely to check the availability of resources such as PCF, since without PCF, a turnaround will not be possible. PCF in this instance then determines the solution that the BRP will pursue. BRPs are also found to assess the assets within the distressed venture to check where these may be used to yield some return to creditors:

“I think resources do drive a lot of rescues, I haven’t worked with so many. I think from experience, they will get to a point where they say we know if you don’t have PCF, you not going to make it work because that’s what’s happened in the past so we will see first of all if there is PCF and then decide what we can do.” (TP 9, male)

“They have a look at what assets there are, can the assets give some sort of return and with a bit of luck, deliver something to creditors.” (TP 8, male)

Confirming the TP findings, BRTs also mention that within the industry, a lot of focus is on the use of available resources instead of finding resources and making the plan work regardless of the lack of resources. Participants argue that BRPs in the industry neglect the important aspects of determining the existence of RP and only focus on assessing whether there is capital and government backing available. BRPLLs also confirm the TP findings, mentioning that in the industry, resource requirements determine the solution; BRPs only

assess the resources that are available within the distressed venture but lack the capability and competency to find resources when needed:

“So, I would say the industry looks at the resources more aggressively than coming up with a plan irrespective of the resources.” (BRT 3, male)

“In general, it’s the resource requirements that will determine the solution, the practitioners look at stuff from face value and are not always willing to go out of their way to make the BR work.” (BRPLL 3, male)

6.3.4 Bird-in-hand moderators

When asked why BRPs in the industry only focus on available resources, TPs feel that BRPs may find this easier and do it deliberately. Participants also mention that some BRPs in the industry are more concerned with getting BRP fees rather than going out to pursue resources when required. They state that the focus on available resources is due to a lack of pre-assessments being done because if BRPs conducted the assessment, they would already know what resources are available before taking on the appointment. What seems to be the trend in the industry is BRPs taking on appointments which do not seem to matter to them. Furthermore, BRTs mention that BRPs in the industry only know how to work with what is available to them, simply because that is the status quo. However, BRPLLs feel that this focus is due to a lack of capacity, competency and knowledge. They highlight that BRPs lack the skills that will allow them to pursue the required resources, such as great communication/negotiation skills and emotional intelligence:

“In fact, it’s completely the opposite, they are the first ones to know am I going to get paid and how much is in the bank account, so that’s what they are after. So, they look for resources for them in the pocket.” (TP 1, male)

“I think knowledge and circumstance, you need a different set of skills, you know you need a huge amount of emotional intelligence, you need a huge amount of effective communication skills, you need high levels of negotiations just outside the competencies of understanding. So, the reason why they are doing it is the lack of capacity, competency and knowledge.” (BRPLL 4, male)

6.3.5 Affordable loss principle

Participants were asked whether they think other BRP's decisions in the industry are driven by what can be gained by the envisioned solution or whether their decisions are driven by what can be affordably lost in the venture. The majority of the TPs interviewed mention that their industry counterparts are driven by what can be gained, as they intend to take the business out of the distressed situation and improve things in the company. Similarly, BRTs also mention that the focus is on gains for the distressed venture, and this is due to the entrepreneurial nature of BRPs. They intend to find solutions, solve problems and ensure that they achieve a successful rescue. Contrary to the TP findings, BRPLLs mention that their fellow BRPs are driven by what they can afford to lose. Participants state that, given that most BRPs are employed by shareholders, they tend to pursue shareholder interests; if they do not, they risk losing shareholder support in the rescue. BRPLLs also mention that their colleagues focus on curbing the downside potential instead of working on a potential solution achievable for the distressed venture and everyone else:

"I think most BRPs are driven by they want to improve the situation so by the gains." (TP 9, male)

"I think most BRPs are generally entrepreneurs so they are going to look more on the positive that will come of it, so what can be gained. Their mindset, they are problem solvers, they are not looking at mitigating losses, they are looking at the required solutions." (BRT 2, female)

"I suspect that many BRPs take option 2 that's more of what can we afford to lose rather than if we follow this path with the upsides for everybody." (BRPLL 3, male)

6.3.6 Affordable loss moderators

When TPs were asked why some of their colleagues focus on the best-case scenario and gains for the business, participants mentioned that this is something that is embedded in their character - where the aim is to save the business and essentially get the business out of the distress situation. BRPs are considered to be confident about the future of the distressed ventures they handle and thus look to do better. BRPs' intentions are never to sabotage employees but rather to preserve jobs, offer a better solution than immediate liquidation and focus overall on the best-case scenario. BRTs mention that the focus on gains in the industry is due to the entrepreneurial nature of BRPs, who seek to find solutions

to rescue the business rather than mitigate losses. However, BRPLLs are of the view that BRPs focus on what they can afford to lose as they try to serve shareholder interests:

“As I say it’s like a character trait of people in the industry that they look to improve things, they are optimists looking for where they can do better.” (TP 9, male)

“I don’t think they think about it, I don’t think they are trying to screw over employees for example, I think their mindset is well if you save the business that saves more jobs than would have been lost in liquidation.” (TP 4, male)

“I think most BRPs are generally entrepreneurs so they are going to look more on the positive that will come of it, so what can be gained. Their regards to their mind set, they are problem solvers, they are not looking at mitigating losses, they are looking at the required solutions.” (BRT 2, female)

“Definitely by what can be affordably lost. I’m talking about the majority because they have been appointed by the shareholder of course they are going to look at their interests because if you don’t pursue this thing, I’m going to lose everything. I don’t care what the solution is, just buy me time. So, they are driven by what can be lost not necessarily what can be achieved.” (BRPLL 4, male)

6.3.7 Crazy quilt principle

Participants were asked whether they think BRPs in the industry consider stakeholders with voting power as the only real stakeholders or whether all stakeholders are considered in the decision-making process. The majority of TPs mention that many of their colleagues focus on stakeholders with voting power as these are people who will vote on the plan and provide the necessary funding (PCF). Participants mention that the focus on stakeholders with voting power is contradictory to the requirements of the Companies Act, which stipulates that BRPs must balance the interests of all stakeholders. Confirming the BRP findings, BRTs also mention that stakeholders with voting power take priority, although a BRP may want to consider everyone in the process. Similarly, BRPLLs assert that in the industry, attention is given to decision-makers who vote on the plan rather than affected parties as BR is a creditor driven process:

“They consider the ones with voting power because whatever the stakeholders with voting power say goes and which is contrary to what the Act says. The Act says we must balance the interest of all stakeholders.” (TP 1, male)

“Although you want to consider all stakeholders, stakeholder with a key voting power tends to take precedence.” (BRT 3, male)

“They consider the creditor, why? Because they come from a creditor driven environment most of them where in a liquidation, the creditor drives the liquidation. What does a creditor want, I give and I am saying the majority of them.” (BRPLL 4, male)

6.3.8 Crazy quilt moderators

When participants were asked why they think BRPs in the industry focus on voting creditors, TPs mention that BRPs need these votes for the BR plan and for funders to stay interested. Moreover, BR is a creditor-driven process due to the Companies Act. BRTs offer a different perspective from TPs; they mention that BRPs in the industry focus on voting creditors due to the possibility of receiving their BRP fees. BRPs in the industry have a clause in their plans that, if the plan gets approved, they are certain to receive their fees. BRPLLs add that the focus on voting stakeholders happens because practitioners play to the bigger creditors which is simply the reality of how things are done in the industry:

“It’s deliberate because you need the majority vote so it’s the shortest route to passing a plan to ask the biggest creditor what they want and put that into a plan.” (TP 9, male)

“So generally, in the BRP industry many of the BRPs have a clause in their plan that says as soon as the plan is approved, substantial implementation is given. So, they’ll get their fees or they will get a contingency fee on the approval of the plan.” (BRT 2, female)

“I think it is deliberate but then it has become such common practice that it’s become the way that they do it but it’s definitely deliberate, you listen to the bigger creditors, that’s how it is.” (BRPLL 3, male)

6.3.9 Lemonade principle

Participants were asked about their general perception regarding the development of the BR plan by BRPs in the industry. They were specifically asked whether they think once BRPs have developed a BR plan, they rigidly stick to it or adapt it as new information is

received. Most TPs mention that because the plan is in the development stage and has not been adopted, they believe their colleagues adapt the plan as new information emerges. TPs mention that if changing circumstances are not incorporated in the BR plan, then the plan will not be relevant and it will be impossible to implement. Confirming the TP findings, BRTs also mention that BRPs are flexible and will adapt the plan when faced with new information. Similarly, BRPLLs mention that the plan is always subject to changes and the final version of the BR plan hardly looks the same as the initial plan developed. This is due to changes that are incorporated, some of these changes may be recommended by creditors. In this regard, BRPs are always willing to change and are flexible:

“Again, because it’s not accepted yet, I think they adapt as new information becomes available.” (TP 2, male)

“I think they adapt the plan as new information emerges, during meeting with stakeholder and creditors, information that comes through needs to be included in the plan.” (BRT 5, male)

“I think they adapt that plan as new information emerges. You’ll rarely find a first draft of a BR plan for example being the final, there is always new information that comes to light, and there are always changes that creditors might ask for. So, from the beginning to say you will publish a perfect BR plan, you are living in dream land.” (BRPLL 3, male)

6.3.10 Lemonade moderators

Not much evidence was gathered on why practitioners in the industry are willing to adapt the plan when new information emerges. TPs state that amendments happen when a practitioner is put in a difficult situation that they cannot escape due to changing circumstances with amendments that are not anticipated. Contrary to TPs, BRPLLs mention that BRPs are willing to adapt to changing circumstances due to the nature of the BR environment, which is characterised by uncertainty – this requires BRPs to make changes to the BR plan and do things differently.

“I think generally, amendments only happen when you get pushed into a corner so I don’t think people anticipate amending the plan when publishing it.” (TP 4, male)

“I think that’s just how they do it. That’s the commercial environment that we operate in, there is no certainty and you’ve got to provide for room to manoeuvre.” (BRPLL 5, male)

6.4 THEME 3: THE CHOICE FOR REORGANISATION/BRIL/LIQUIDATION

The third research question of this study aimed to understand whether effectuation could explain the choice for reorganisation/BRiL/liquidation. TPs, BRTs and BRPLLs were asked on what basis they make this choice. Their responses were used to determine whether effectuation informs their choice for solution determination in the form of reorganisation/BRiL/liquidation. Several sub-themes emerged, as discussed below.

6.4.1 Resources in business rescue

In determining the choice for reorganisation/BRiL/liquidation, TPs mention that it is important to assess the resources of the distressed venture. Participants look at the assets, assessing whether the business has the appropriate machinery; most importantly, participants look at whether the assets that the company has exceeded its liabilities. If the liabilities are greater than the assets, this would then suggest that there is no RP of saving the company. In that event, the choice of solution will be liquidation because doing anything else would be a waste. In addition, BRTs mention that assessing the assets is crucial, especially where BRiL is a choice to be pursued; this is made on the basis that there are assets that a BRP can use to liquidate and perform a wind-down to get a better return for creditors. BRTs, however, indicate that a BRiL does not work for service delivery companies as they may not have sufficient assets. A BRiL may also not work if the company's assets are based on finance lease agreements because the BRP may not get a better return than in liquidation for creditors. A BRiL option is chosen on the practitioner's ability to liquidate the company assets, which seems the most selected course of action when performing a managed wind-down:

“If the company's liabilities vastly exceed the assets and there are no prospects of rescuing, you would go into a liquidation immediately because anything would just waste time and effort.” (TP 3, male)

“Obviously in terms of deciding whether there is a BRiL basically what you need is a managed wind down, you need to know that there are assets. If you are dealing with a company that offers a service or all of their assets are on finance lease agreements, a BRiL is not gonna [sic] work for you because you are not going to get a better return than in liquidation.” (BRT 2, female)

In determining the choice for reorganisation/BRiL/liquidation, TPs also mention that it is important to assess the availability of sufficient cash flow in the distressed venture, as this forms part of PCF in the BR plan. In the absence of cash flow, the distressed venture must be liquidated or a BRiL be pursued. Confirming the TP findings, BRPLLs mention that the solution choice is made based on whether the distressed venture has a chance of survival and this requires cash flow assessment. In this regard, a BRP needs to assess the availability of having runway or the cash to run the business and pay for expenses such as salaries. In the absence of sufficient cash flow, with no chance of getting any, the choice becomes liquidation.

“Firstly, you need to look at whether you have sufficient working cash flow, that pulls into your PCF as part of your model. There must be cash flow, so if there is no cash flow, the company must go into liquidation or you can flow a structure disposal process and create a better return for creditors.” (TP 5, male)

“It boils down to the ability of the company to survive, if you are going to rescue, access to cash, you need to know that, for example someone knocks at your door and says I can’t pay my staff, salaries are due on Monday, that’s not a rescue, that’s a liquidation.” (BRPLL 2, male)

6.4.2 Reasonable prospect assessment

In addition to assessing the resources and stakeholders, practitioners emphasise the use of an RP test using the DWAB (do we have a business) tool which provides a holistic assessment of the business and resources, amongst other things. TPs mention the need to assess RP by looking into the industry and the overall business and assessing how long it has been in operation, as well as the resources that the business has. In addition, TPs assess the overall market, the products and services offered and the means of production to determine whether the combination of all these can result in a sustainable business. If the RP assessment and the logic applied provide a positive outcome regarding the prospect status of the company, a reorganisation is pursued, with BRiL being the best choice. TPs also mention that RP assessment entails determining whether there exists a demand for the product and whether there are sales to be made:

“I think you must ask yourself, is there a business to rescue, in what industry? Is it overtraded? You got to look at the context of both, is there a real business, what is the longevity of this business, what are the available resources.” (TP 6, male)

“Yes, do I have a market, do I have a service or a product to offer that market, do I have the means of production and does it look like I can do it in a profitable way. If I can tick those boxes and explain them even with assumptions then I would be inclined to explain my RP as having some probability of a return to sustainable trading and as a backup I would say if these assumptions prove to be unworkable then we have the following in terms of a BRiL.” (TP 8, male)

In establishing whether a business exists, TPs assess the machinery within the business, alongside its client base; if customers are lost, they find ways to get them back. TPs also look at whether the company can improve its systems and processes, and the potential to obtain PCF when needed. In evaluating RP, TPs assess whether there exists a business – if there is a business, reorganisation is pursued and if no business exists then a BRiL is preferred over liquidation. In essence, to determine RP, TPs assess the overall company and its offerings, the demand for the company’s offerings and its supply activities. The judgement is therefore made holistically by looking at all factors. If there exists no business, then TPs indicate that there is no RP:

“So for a turnaround to happen, you need to have a business, you need to do the DWAB test, do we have a business, if it fails then what can we reorganise and restructure in order for there to be a business, if that fails then you go to how do we provide a better return to creditors than in liquidation then you decide on a BRiL, if that fails then a liquidation.” (TP 4, male)

“You look at the essence of the company, the fundamentals of certain engagements, contacts, supply, demand all those economic things in place if they are still in place then there is always a chance for reorganisation. (TP 3, male)

Confirming the TP findings, BRTs also mention assessing RP to determine whether there exists a business. Participants state that if the assessment outcome indicates that there exists a business to work with, then reorganisation is pursued and if not, liquidation is the alternative option. The RP judgement is based on the ability of the company to survive. If there are strong fundamentals, then, with the right guidance from the BRP (and adding new

capabilities), management is capable of running the business in future. Similarly, BRPLLs look at the market the company operates in, the market share, and its competition and determine the cause of the distress. In addition, the actual patient (which is the distressed venture) is evaluated, assets are compared with liabilities, and the financial model used is assessed, including an assessment of the company, its securities, the employment structure and the labour issues involved:

“Does the business have the ability to actually thrive? Given a couple of corrections. So, a fundamental reorganisation is when I believe that the fundamentals are strong, good, they have made a couple of mistakes but with some input the current management will be able to or with instruction of some new competencies the company would be okay (BRT 3, male)

“You assess the market, what sector is this business operating in, what market share do they have, who are the leaders, what’s the competition. Look at the assets of the business compared to the liabilities, you look at the financial model that was being carried in the business, if it was making losses, the reasons why, we look at the securities, you look at the employment structure, and the labour issues.” (BRPL 4, male)

6.4.3 Stakeholders in business rescue

In addition to assessing the business’s tangible resources in the form of assets, TPs mention the need for a distressed venture to have a business champion (intangible resources). They assert that the business champion is not the BRP but rather the shareholders (new and old) and the existing management team. If there are people who will support the rescue financially then a rescue is a possible option; if not, there are only two options left - a BRIL or a liquidation. BRTs add that the dedication and the willingness of the owners/shareholders to actively support the rescue are also important as these traits contribute to their solution determination. Confirming the TP findings, BRPLLs emphasise the importance of stakeholder support, especially from banks, known as the ‘funders of the funders’ and champions of the rescue. Participants therefore engage with various stakeholders, specifically financiers who would be willing to support the rescue:

“Every BR needs a champion, someone who is going to be the proposer of the rescue plan, that is not the practitioner, that is either an existing shareholder, a new shareholder, or the existing management team. There is someone who has to be the sponsor or the

champion of the rescue. That person exists, then you can pursue a standard rescue, they don't exist, you only got two options, liquidation or BRiL.” (TP 10, male)

“You need to know whether the stakeholders, the banks, for example, would support a rescue, you know are they, you know my first few people I try to talk to after I've spoken to a client is someone in a senior position at a bank that I know, so there is this client, tell me your view, would you support a restructuring and a rescue because if you don't have the support of your financiers you are also in trouble and those are the types of things that we look at.” (BRPLL 2, male)

In addition to having a business champion, TPs emphasise the need to assess existing management. Participants assert that it is important to look at whether the company has the right management to implement the BR plan, as it can be challenging to convince or attract certain people to join a company that is under BR. Confirming the TP findings, BRTs also mention that they assess whether existing management or leadership can run the business going forward with some guidance and coaching from the BRP. If they are considered the 'right management' who simply did the 'wrong' thing but can handle the business without a BRP, then a reorganisation becomes the appropriate choice:

“Do they have operational management that can implement your plan, if you don't have good management that understands the industry, it comes back to the question, do you have a business.” (TP 6, male)

“If you are convinced that the fundamental missing piece is a small reorganisation or major reorganisation but the leadership within the organisation can still continue. You can assist them a little bit and they can carry on.” (BRT 3, male)

TPs further assess whether management understands the industry they operate in and if not, the issue concerning RP's existence is reinforced. Moreover, TPs invest their time to investigate if there was any fraudulent conduct by directors. If this is the case, then pursuing a liquidation is a much better option as liquidators are much better suited to investigate criminal charges than BRPs. Confirming the TP findings, BRPLLs mention that if they discover foul play or criminal activity, liquidation is chosen as the better option:

“The biggest one for me is whether that has been director maleficence, if there is any indication that in the past there has been fraud or kind of culpable negligence then I would

much rather opt for liquidation because liquidators just got so much more power to investigate criminal charges than BRPs do.” (TP 9, male)

“I think when it comes to a situation where there may well have been something savoury happening, then a liquidation may be a better option but when it comes to a business that it’s in a position that it is in due to the fault of the directors then I’ll consider a liquidation in such a situation.” (BRPLL 3, male)

6.5 THEME 4: THE RELATIONSHIP BETWEEN EFFECTUATION PRINCIPLES AND REASONABLE PROSPECT

The last research question of this study explores whether there exists a relationship between effectuation principles and RP. Several sub-themes emerged from the study findings, as discussed below.

6.5.1 Resources and reasonable prospect

TPs mention that resources contribute to the existence of RP and as a result, if a practitioner has no resources to use, they cannot work toward an RP. TPs state that in smaller companies, they are confined to work with resources within their control; thus, if none exist, liquidation is the only option. They further add that in distressed settings, unencumbered tangible assets are considered to be more beneficial, as they are clear of any creditor claims and can be measured - such a relationship between resources and RP is advocated for. Intangible assets such as management skills, talents and knowledge flow into the RP judgement but participants find them difficult to measure. Practitioners therefore mention that the earlier they find a business in distress (with resources), the better the chances of turning it around and vice versa:

“So, in distressed settings, generally only tangible assets are considered a useful resource. So, I would argue that when you look at it from a construct perspective, absolutely, I think that there has to be a relationship between resources and RP. I think a more refined one is free assets and I think resources that are typically and I know that management skills, talents, knowledge is a resource that can be used and that might flow into RP determination.” (TP 8, male)

“Definitely, the earlier you catch a business in distress while there are resources, the better the RP of turning it around. The less resources, the lesser the chances.” (TP 9, male)

TPs also mention the importance of having the cash flow to keep a distressed venture running during BR. Participants assert that if a business does not have any resources (cash flow), they will experience challenges in daily activities which then make it difficult to work on meaningful solutions. These challenges include not being able to buy stock (raw materials) or the inability to pay salaries, for example. When the company does have some cash to work with, there is a chance of running the business. Without it, suppliers may not be willing to supply the business which would mean that the business has no operational resources, as there would be no stock, affecting RP. TPs therefore advise businesses entering BR to create cash flow or PCF to keep the business operational during BR. In essence, TPs consider resources in the form of cash, PCF and having a business champion to finance the rescue as the most important resources that determine the RP of the business; if these resources are not available then liquidation is the better option. TPs also emphasise that if a practitioner is not convinced about the availability of resources within the distressed venture, then they must take the initiative to find and replace those resources and as a result, there exists a strong relationship between resources and RP:

“Yes, so if the company has run out of resources whatever those resources might be, then it doesn’t have any runway and without runway you can’t take off. So, you need to have some room to work towards a solution so if there is absolutely zero cash, there is no runway because you can’t buy raw materials or stock or whatever it is you need in the business, you can’t pay employees. So, if the company doesn’t have cash, it needs PCF so that you create the runway and you need a champion. The two important resources are champion of the rescue and cash and if you don’t have those, even if the business is viable it will probably end it up in liquidation when put in rescue.” (TP 10, male)

“So, there is a relationship because let’s say you walk in and there is no RP, let me say that you doubt the RP because of the lack of resources, then it will be your job to replace or find those resources, so there is a strong relationship.” (TP 3, male)

Confirming the TP findings, BRTs mention that there is a direct correlation between resources and RP. Participants state that a practitioner must assess available resources

within the company if they want to determine the possibility of a rescue. Without assets and finances, BRTs claim that BRPs will find it difficult to rescue the company. Expanding on the importance of finances and cash flow, BRTs also confirm that BRPs need working capital and intangible resources in the form of knowledge from management, the directors or the shareholders as the custodians of knowledge within the distressed venture. In order to be successful at their task, BRPs need all types of resources which guide decisions on RP, including PCF. BRTs mention that in most instances, the market is not open to funding additional businesses in distress and lack of this funding may directly impact the BRP's assessment of RP:

“Yes, there’s a complete link and it will be worked together with them throughout the BR process. You need to see what the company has to determine whether you can rescue the company. You are not going to if you don’t have the resources in terms of the assets or the finances, you can’t move forward. You need working capital and working capital is a resource and you need knowledge either from the management or the directors or the shareholder. So, you need an entire resource pool which is completely linked to your RP which then falls onto your success.” (BRT 2, female)

BRPLLs indicate that the existence of the relationship between resources and RP somewhat depends on the kind of industry a BRP is working in. For example, some industries such as manufacturing require the availability of resources and with no resources or the possibility of sourcing them, no RP exists thus liquidation is necessary. However, service-driven companies are not limited to tangible assets – they have employees as a resource. BRPLLs therefore support the existence of a relationship between resources and RP. BRPLLs assert that resources play a major role and do not just entail money but also the company's staff and intellectual property, amongst others:

“It’s also dependent on the industry. For example, in the manufacturing company, if you know that they got no resources like they won’t be able to get the materials needed to do their business there is obviously no RP, there is no rescue and may need to liquidate. Resources are not the be-all and end-all of BR, I think you need to look at the staff, the guys that actually do the hard work to get the business turned around.” (BRPLL 3, male)

6.5.2 Stakeholders and reasonable prospect

TPs mention that there is a definite correlation between stakeholders and RP, although the type of relationship is unknown at this stage. Participants mention that stakeholder management is vital in BR, as the type of stakeholders (cooperative versus aggressive) a BRP has to deal with can either enhance or weaken their RP. Regardless of how good the business is, when there are Board fights and recriminations amongst stakeholders, the business will die.

TPs further mention that getting support from creditors also enhances their RP, as it becomes easier to have access to PCF, cash or even supplies. On the other hand, if management has destroyed the relationships with various stakeholders, it becomes a hostile environment with constant fights, making the rescue difficult. Overall, TPs argue that a rescue therefore requires the support of all stakeholders; if i) employees are not willing to work hard; ii) management is complacent; iii) financiers do not believe in the business; iv) shareholders do not continue to support the business, and v) suppliers stop supplying the business, it will fail:

“Yes, I’m not sure what the relationship is. Is there a correlation, yes. Is the relationship a causal relationship, maybe not, is it a mediating and moderating relationship, probably because, so yeah definitely. Trams, Ndofor’s study put stakeholder management as a key component so if you’ve got aggressive antagonistic stakeholders it can moderate the RP and if you’ve got cooperative stakeholders they could enhance it.” (TP 8, male)

“If the business and management still have the support of creditors, your RP is so much higher because you have access to PCF whether that be in the form of actual cash injection or just suppliers continuing to provide a service. Whereas if management has already burnt bridges with its suppliers and the banks especially, it just becomes so difficult to turn this thing around. There is a correlation with who the stakeholders are and what is the relationship at the beginning of a rescue.” (TP 7, male)

Confirming the TP findings, BRTs mention that there exists a correlation between stakeholders and RP. Participants state that stakeholders, such as banks who are financiers, are important and the BRP has to work with them to make the venture a success. Similarly, suppliers of raw materials are equally important, as the BRP may need to make a payment arrangement with these creditors to allow the business to recover financially before

they start paying their debts. Therefore, BRTs mention that cooperation with all stakeholders such as the management, shareholders and directors is important for the success of BR and enhancing RP. Moreover, BRTs mention that a BRP is only within the distressed venture for a short period and as such the commitment from all the stakeholders to making the business work is imperative:

“Yes, there is definitely a correlation. Some of your stakeholders are your bigger creditors which are often the banks or the people that have loaned you money and you must work with them and you need to work with them because you need to be on good terms with them to allow certain months of, let’s say you need a payment, you need 3 months of not paying in terms of your agreement or something to let the company breathe a bit. The same is true with stakeholders such as the management, you need to work with them you must work with the directors, the shareholders because you need them to make this a success.” (BRT 2, female)

BRPLLs also confirmed that there is a relationship between stakeholders and RP. These participants reiterate the importance of obtaining stakeholder support from creditors who vote on the plan. Participants mention that if there is hostility in the distressed venture, even if the BRP develops the best plan to yield the best possible outcome, the creditors may vote against it. While there may be strategies to implement, practitioners caution that at the end of it all, the plan has to be approved by the creditors and BRPs must be in good standing with them. In addition, TPs also emphasise the importance of stakeholder management to achieve RP, as there may be times when a practitioner must deal with hostile creditors who can vote against each other vindictively and thus vote against the BR plan. Without stakeholder management, even the best BRP may not succeed in the BR environment:

“100%. Without the buy-in from creditors, you are going nowhere and unfortunately it happens all too often that the BRP will publish what is in all fairness the best possible outcome for the business sometimes envisioning a compromise with some of the creditors, like a payment plan with the creditors but sometimes out of pure bad blood stakeholder will vote against the plan and its very unfortunate. There is a remedy for that you can have the vote set aside based on that it’s unfair but your plan is based on creditor approval, it’s as simple as that.” (BRPLL 3, male)

“Yes, definitely. That’s why stakeholder management is not talked about as much as it should be. You can be the Warren Buffet of turnaround or investment but it doesn’t effectively mean in this environment you will thrive because of your ability not to have stakeholder management. There is a massive correlation, it’s actually critical, stakeholders and RP.” (BRPLL 4, male)

6.6 CONCLUSION

This chapter presented the findings from the interviews. From the above, several principles of effectuation used by BRPs were presented. These principles are the bird in hand, the crazy quilt, affordable loss, pilot in the plane and the lemonade principle. In addition, various sub-themes were presented, showing that effectuation principles can inform the choice for reorganisation/BRIL/liquidation. Lastly, the sub-themes regarding the relationship between effectuation principles such as the relationship between the bird in hand and crazy quilt principle and RP were presented.

CHAPTER 7: DISCUSSION OF THE FINDINGS

7.1 INTRODUCTION

For the reader viewing only this chapter, please note that in this study, the research identified what expert BRPs do in practice when evaluating a DVO based on what they said. Thereafter, the researcher evaluated their opinions (perceptions) of how other people in the industry do things – those they consider as ‘less successful’. The previous chapter presented the main findings of this study. The main research question of this study was: *Are effectuation principles relevant to the DVO decision-making?* Chapter 7 will discuss the findings that were presented in the previous chapter.

7.2 THEME 1: PRINCIPLES OF EFFECTUATION RELEVANT TO THE DISTRESSED VENTURE OPPORTUNITY

The first research question of this study was: *What principles of effectuation are relevant to the DVO?* To begin answering this sub-question, the section that follows depicts the factors that moderate the inclination towards effectuation and/or causation for several principles. Figure 7.1 depicts the findings for the pilot in the plane principle and the white rectangle in the figure (next to both) indicates that practitioners strongly lean towards effectual thinking.

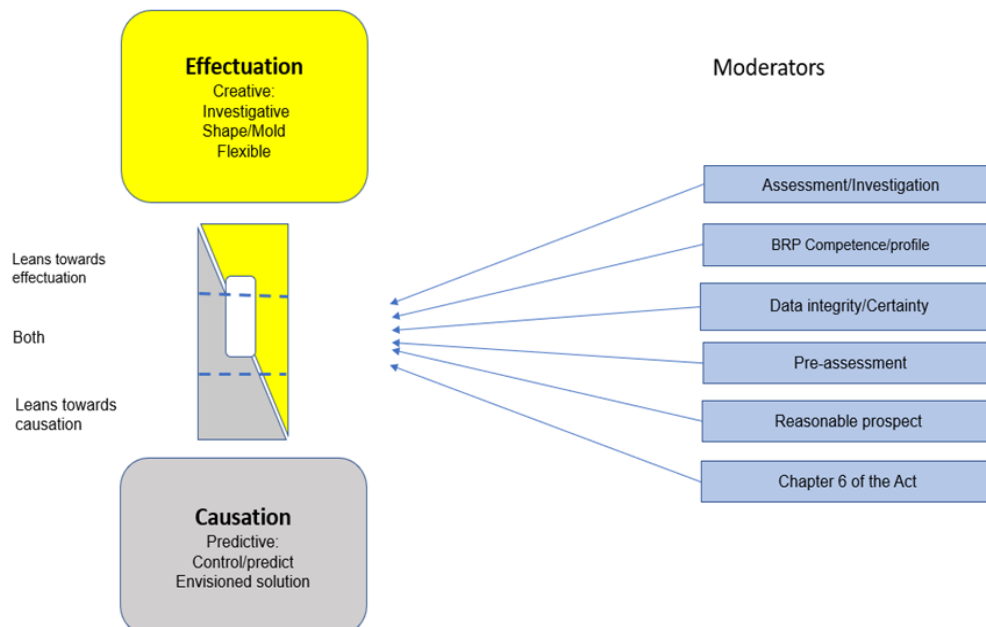


Figure 7.1: Moderating factors towards effectuation and/or causation for the pilot-in-the-plane principle (self-evaluation).

7.2.1 Pilot-in-the-plane

Participants acknowledged the use of *pilot-in-the-plane*, a principle of effectuation which emphasizes creation, doing and execution. This principle applies to the DVO; based on Figure 6.1 in Chapter 6 of this study and as depicted by figure 7.1 with the white rectangle next to both, participants showed a strong inclination towards effectual thinking when evaluating a DVO. Working in distressed ventures, participants understood that the environment is filled with uncertainty and that circumstances constantly change. When determining the solution to be pursued, various moderators were mentioned by participants and these either strengthen or weaken their use of effectual or causal thinking. Conducting an assessment/investigation is one of the moderators that strengthened the use of effectual thinking and shaped the solution that BRPs pursue. The better the assessment, the more participants could lean towards effectual thinking.

In determining the solution to be pursued, expert BRPs who leaned towards effectual logic preferred to use investigations to better understand the distressed venture. They used these investigations to develop a well-founded solution instead of coming up with a preferred solution from the first meeting with management. However, expert BRPs may have an envisioned solution in mind, referred to by a participant as a “gut feel” which is based on experience. Experienced practitioners understand that their gut feeling must be confirmed or refuted by the information on the ground as circumstances may change. The ability to assess the distressed venture therefore tends to depend on the competence and profile of the BRP. The more competent BRPs are, the more effectuation becomes feasible, as competent and experienced BRPs lean towards effectual thinking instead of causation as they understand the importance of an investigation/assessment and confirming their gut feeling with proper due diligence.

Consistent with the findings by Pretorius and Holtzhauzen (2008), one of the uncertainties in BR is the issue of data integrity, which was mentioned by participants. In BR, a lot of the information provided by management may be misrepresented, hidden, or untrue. Due to this, data integrity and certainty is a moderator which either strengthens or weakens the use of effectuation or causation. The findings of the study showed that participants leaned towards effectual thinking as they understood that in BR, the information provided to them may not be accurate. In this regard, they are often forced by circumstances to confirm the accuracy and validity of the information received via an investigation. The issue of data

integrity as an uncertainty in BR is also consistent with the study by Sarasvathy *et al.* (2008:334), who postulate that the effectual problem space is characterised by environmental isotropy and ambiguity where it becomes unclear which pieces of information are worth paying attention to. Similarly, BRPs are faced with information that they are unsure of due to the nature of the BR environment.

Expert BRPs recommend conducting a pre-assessment as part of the solution determination. This allows practitioners to determine the possibility of success of the BR. A pre-assessment therefore serves as a moderator to apply effectual or causal logic. Based on the findings of this study, BRPs who conducted a pre-assessment before taking on a matter, did not need to predict the solution and thus leaned towards applying effectual logic. These BRPs understood that they could not be certain of the future and the exact outcome of the solution due to BR's creditor-driven process alongside constantly changing circumstances. This is consistent with Dawa (2018:37) and Duening *et al.*'s (2012) findings, who assert that the pilot-in-the-plane is about exercising control and the distinctive facet of control is that there exists no certainty regarding the future; decisions taken are made to facilitate future actions and through these actions, effectuation presumes that an opportunity may result. Similarly, expert BRPs find the need to conduct a pre-assessment as part of executing their tasks, to avoid predicting what the solution will be.

While participants found no need to predict the solution, an important aspect for them was the ability to issue an RP statement as required by the Companies Act. To issue the RP statement, BRPs must assess the distressed venture to explain their RP logic. In this regard, conducting an RP assessment is also a defining moderator, where BRPs who lean towards effectual logic choose to investigate and explain throughout the BR process, to provide an understanding of RP. Expert BRPs emphasised the importance of having an idea about RP in the beginning, although this RP may change along the BR given the uncertainty of the process. In this regard, BRPs who did not conduct RP assessments did not know how to explain their logic and instead leaned towards causal thinking to try and predict the solution.

The findings of this study further showed that participants were flexible in solution determination and they did not stick to a solution once visualised. Solutions may change as circumstances do, such as discovering new information; this requires some level of flexibility and thus the sub-theme of flexibility and adaptability. While BRPs could be flexible, they were limited by Chapter 6 of the Companies Act which now serves as a moderator and limits

them from changing their plan and also limits their ability to apply extended effectual thinking. The Companies Act requires that BRPs not make changes to their plans once they have been adopted. However, before adoption, flexibility is allowed.

Based on the discussion above, the study found that, through the pilot-in-the-plane principle, expert BRPs showed a strong inclination towards effectual thinking and various factors in practice moderated the inclination towards effectuation and/or causation. These factors included the ability to conduct an assessment/investigation and the BRP's profile/competence when conducting an assessment. In addition, expert BRPs were aware of uncertainties in BR, such as data integrity/certainty given that at times management may provide them with inaccurate information; as such, they investigated to confirm the information provided. Moreover, expert BRPs understood the importance of conducting a pre-assessment to gain a better sense of RP, thus avoiding the need to predict a solution. Expert BRPs note the importance of adjusting a solution if necessary, although Chapter 6 of the Companies Act limits BRPs as they cannot make changes to their plans once the plan has been adopted. These are important factors that BRPs must be cognisant of when evaluating a DVO in practice.

7.2.2 Bird-in-hand

Figure 7.2 depicts the factors that moderate the inclination towards effectuation and/or causation for the bird-in-hand principle. The figure is based on the findings from participants and the white rectangle in the figure (next to both) indicates that practitioners apply both effectuation and causation but strongly lean towards causation.

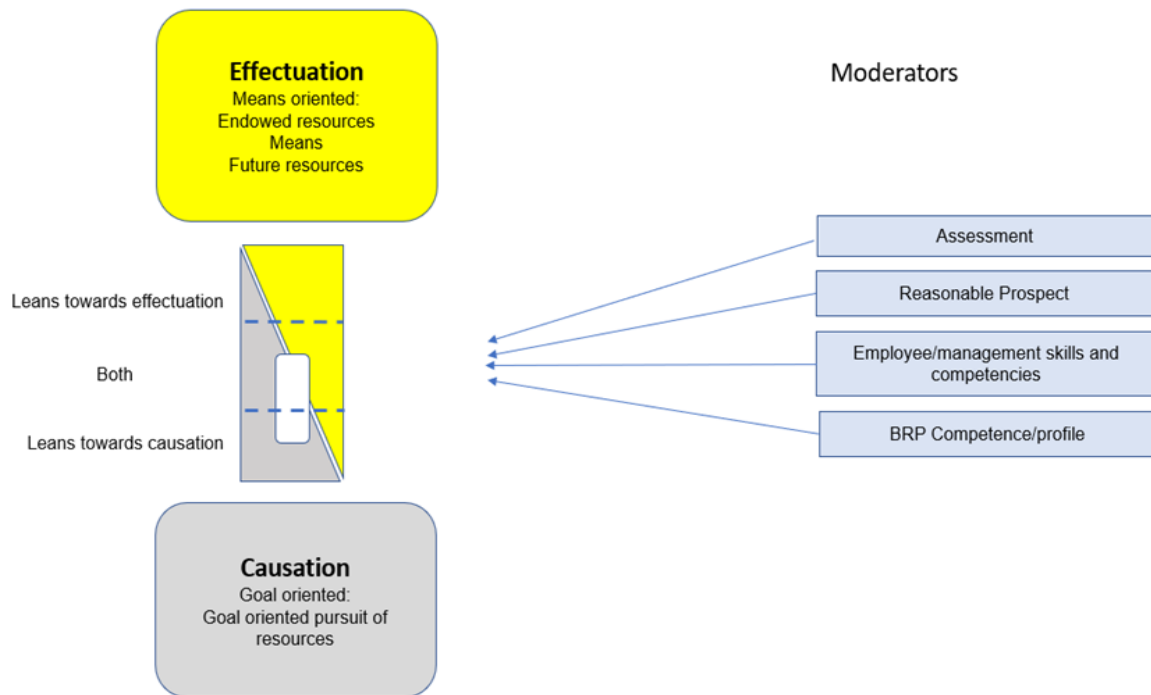


Figure 7.2: Moderating factors towards effectuation and/or causation for the bird-in-hand principle (self-evaluation).

Participants acknowledged that the bird-in-hand principle exists in BR and this principle entails effectual thinking, where available means are utilised to achieve a broader range of prospective goals rather than causal logic, which focuses on goal selection first, followed by the acquisition of the necessary means to achieve the selected goal. Although participants applied both effectual and causal logic surrounding this principle, based on Figure 6.2 in Chapter 6 of this study, participants showed dominance towards causal logic in practice. In BR, it is important to highlight that practitioners work in an environment where resources may be scarce or limited and as such various moderators may influence BRPs to lean towards causal or effectual logic - or both logics depending on the context. An assessment (investigation) is one of the moderators that can either strengthen or weaken the use of effectual or causal thinking in BR. Based on the study findings, expert BRPs understood that it is important to assess the resources that are available in a distressed venture such as PCF, working capital, assets, skills, and investments, amongst others, before determining the solution (a prospective goal they want to achieve). BRPs who applied effectual logic thus conducted an assessment to get a better sense of the available means (endowed resources) and future resources that would be required.

Expert BRPs specifically conduct an RP assessment to evaluate the ingredients (resources) they have, such as the existence of a marketplace, a product, means of production, and funding, as supported by the study by Timmons and Spinelli (2003:79-113). They ultimately take a resource-based view in assessing the means they have at hand to see what solution would be possible. The findings of this study showed that until a practitioner assesses the resources they have, it is difficult to work on a meaningful solution. RP is therefore a moderator where BRPs who lean towards effectual logic conduct the assessment to get a better understanding of the available means and the potential to obtain future resources, whereas BRPs leaning towards causal logic may want to predict the available and future resources. The potential to obtain additional resources using the RP test is also consistent with studies by Nguyen *et al.* (2018) and Duening *et al.* (2012).

With RP as a moderator, the findings showed that if a practitioner conducts an assessment and establishes that there are not sufficient resources to work with, this does not limit them from pursuing additional resources. Under the sub-theme of resources and viability, findings show that if a business has great viability prospects (strong RP) and resources are lacking, the practitioner should not just rely on available means but should find the resources to achieve their envisioned solution. If the business has great viability prospects, participants argued that it will be easier to get resources. In this instance, when the business has great viability prospects, it becomes easier to sell the opportunity or vision to stakeholders who may be investors, employees and other people. That said, in BR, there are times when the solution is determined first (the prospective goal to be achieved), followed by the action to pursue the resources to achieve the envisioned goal. In this instance, a causal approach is applied as practitioners cannot give up on their solutions due to the lack of resources. The use of the causal approach in this study is supported by Sabdia (2014:16) and Sarasvathy (2001), who postulate that causation begins with an entrepreneur's business idea, the business plan developed and subsequently how to acquire the means to start the business. Similarly, when expert BRPs visualised a solution, they made it work by pursuing the necessary resources. The decision to pursue additional means is consistent with Duening *et al.* (2012), who argue that expert entrepreneurs gather additional resources to improve the venture's growth. In this study, distressed ventures are already established, thus expert BRPs did not only rely on available means - practitioners gathered additional means to help resuscitate the venture back to sustainability.

However, when viability is weak, it becomes difficult to obtain resources such as funding and even convince stakeholders to join the distressed venture. In this case, results showed that BRPs were confined to work within the resources they had available which made the rescue challenging. The available resources ultimately determined the prospective goals to be achieved and an effectual approach was applied. Using the available means is in line with the effectual approach of starting with the means to achieve the set of prospective goals, as per Duening *et al.* (2012:20); Nguyen *et al.* (2018:1057) and Sarasvathy (2001:245).

The use of available means and pursuit of additional resources supports the study by Arend *et al.* (2015), who state that the assumption of the means-driven action of using only the available means is somewhat restrictive if not accurate, as it limits the ability of the attempt to obtain more resources or greater means. While practitioners in the BR space do assess the available means within the distressed venture, it is very limiting to only use available means especially if there are additional resources required. In this regard, if the expert BRP assessed the venture to have strong viability (strong RP) and resources were lacking, additional resources were sought. Thus, the stronger the viability of the solution, the more BRPs sought additional resources, taking a causal approach. Based on their envisioned solutions, they pursued additional resources as required. However, when the viability (RP) was weak, an effectual approach was applied, working only with available means. The application of both effectual and causal logic is consistent with Fisher (2012), who argues that both effectuation and causation can be used in a complementary manner so that the entrepreneur can navigate between both logics.

In the study, it was found that employee/management skills and competencies were also moderators. If an expert BRP had an envisioned solution but there were insufficient skills within the distressed venture, they brought in additional experts and consultants to assist (causal approach). BRPs understood that management may have been the cause of the distress and at times they must let go of certain people who will not be suitable for the solution that will be pursued. That means that practitioners first selected a solution (goal-driven), and thereafter determined who remains in the venture or who is needed as part of the solution (causal approach). The more employees or management were found to be incompetent or without the required skills, the more a causal approach was applied, whilst the opposite was true for the effectual approach wherein employees were retained for their skills.

The ability of expert BRPs to bring in additional resources, experts and consultants also speaks to their competency in BR. BRP competence/profile was therefore a moderator that influenced the application of either effectual or causal logic. Competent BRPs relied on available means (effectual approach) as well as seeking additional resources - PCF, working capital and experts - to achieve their envisioned solutions and thus changed from an effectual logic to causal logic if there was a lack of resources. The more competent the practitioner, the better able they were to switch between the logics. Thus, if resources are limited, competent BRPs can apply both effectual and causal logic where they assess the available means and later seek additional resources to achieve their envisioned solutions rather than relying only on the available means.

As per the above discussion, expert BRPs applied both effectual and causal logic concerning the bird-in-hand principle, although there was a strong inclination towards causal logic in practice. Based on the study findings concerning the bird-in-hand principle, expert BRPs emphasised conducting an assessment to understand the available resources and required future resources for the distressed venture. Most importantly, expert BRPs underscored conducting an RP assessment to develop a meaningful solution instead of predicting the availability of resources. Expert BRPs further understood that management may have contributed to the distress and would need to be removed from the business (causal approach) and replaced by industry experts. The ability to bring in additional experts and resources, such as PCF, speaks to BRP competence and profile as an important factor that influences the inclination towards effectual and/or causal logic.

7.2.3 Affordable loss

Figure 7.3 depicts the factors that moderate the inclination towards effectuation and/or causation for the affordable loss principle. The figure is based on the findings from participants and the white rectangle in the figure (next to both) indicates that practitioners apply both effectuation and causation but strongly leans towards causal thinking in practice.

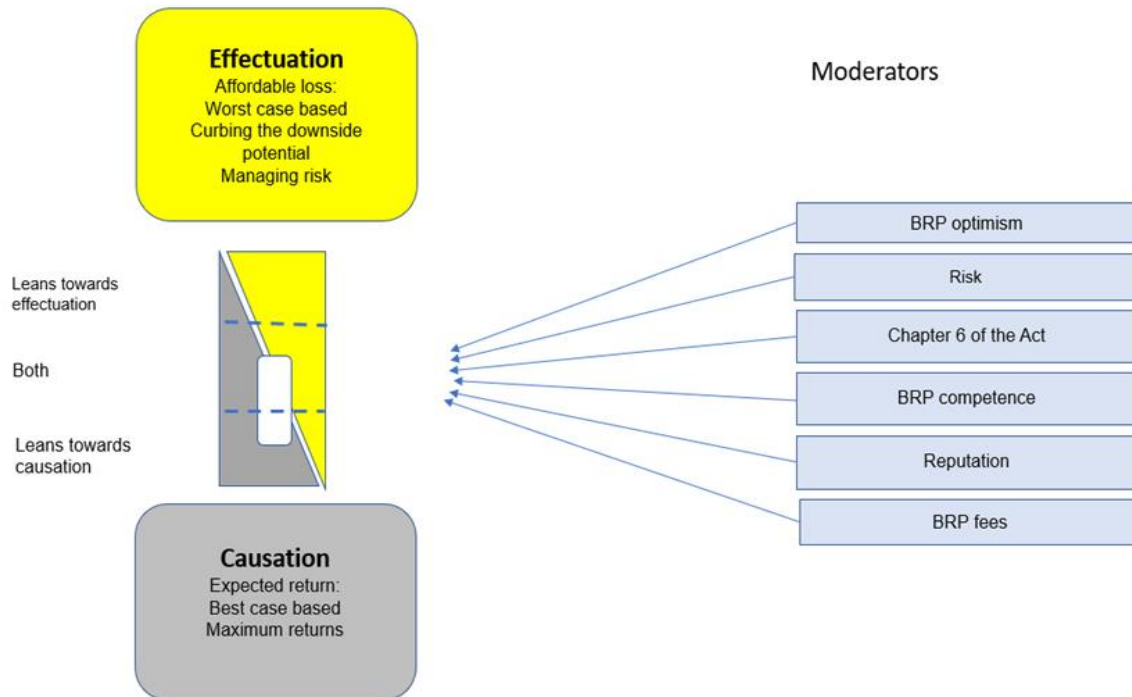


Figure 7.3: Moderating factors towards effectuation and/or causation for the affordable loss principle (self-evaluation).

Participants acknowledged the use of the affordable loss principle, which asserts that effectual entrepreneurs concentrate on what they can afford to lose rather than predicting what can be gained in the future or focusing on maximising returns. While participants applied both causal and effectual logic, based on Figure 6.3 in Chapter 6 of this study, expert BRPs strongly leaned towards causal thinking in practice. As practitioners work in distressed ventures, they understand that the environment is filled with a high level of risk and uncertainty and as such, when making decisions in this kind of environment, various moderators strengthen or weaken their ability to apply causal and/or effectual logic.

To achieve their envisioned solutions, expert BRPs were very optimistic about the future, therefore BRP optimism was a moderator that influenced their decision to apply causal logic and/or effectual logic. The higher the level of BRP optimism, the more positive practitioners were about their proposals, focusing on the upsides of saving the business rather than concentrating on the worst-case scenario (liquidation) in BR. Based on the study findings, participants argued that BR is a forward-looking process and requires BRPs to be optimistic about their proposals, especially if they will be presenting their proposals to investors. Given that liquidation is considered the worst-case scenario, BRPs tend not to focus on liquidation

but rather concentrate on the upsides to achieve the best possible outcome for all affected parties.

Although focus was on 'upsides', expert BRPs always had the worst-case scenario in mind and only used it to convince stakeholders with a voting interest to vote on their BR plan or to get their buy-in on the best-case scenario. By having the worst-case scenario in mind, BRPs could balance their strategies against the worst-case scenario of immediate liquidation. By being optimistic, expert BRPs focused on gains (upsides), which entailed saving the business, saving jobs, maximising returns for shareholders and creditors, implementing their solutions and ultimately achieving a BRiL.

On the other hand, practitioners who took a less optimistic approach applied more of an effectual approach, where focus was placed on mitigating the worst-case scenario. This meant applying a bottom-up approach of examining the worst-case scenario and building from there by curbing the downside potential. In order to obtain support for their plans, expert BRPs presented a more realistic approach to the state of the company, given that creditors may already have been informed of various issues surrounding the venture. That said, the higher the level of optimism a practitioner has about the distressed venture, the more there is a leaning towards applying both causal and effectual approaches, where the focus is on the upsides whilst having the worst-case scenario in mind. Based on the findings of this study, it is therefore evident that in BR, practitioners applied both a causal and an effectual approach, although preference is on the upsides of saving the business and maximising returns for creditors - which may be argued to be a causal approach.

The focus on the upside is consistent with the study by Arend *et al.* (2015), who argue that the affordable loss principle in effectuation does not consider options of leveraging the upside volatility explicitly in decision-making. The authors argue that effectuation did not consider options that could provide a more realistic description of the way entrepreneurs would think. The evidence from this study indicated that in the BR space, the affordable loss principle includes the option of leveraging the upsides, thus BRPs focused on the best-case scenario while having the worst-case scenario in mind. In addition, there was also a preference to examine the worst-case scenario to curb the downside potential and achieve a BRiL which supports effectual thinking, as outlined in the study by Sarasvathy (2001).

Risk was also a moderator in BR, as BRPs understood that there is a high level of risk involved should a business fail - hence the sub-theme of 'risk and stakes involved in BR'.

BRPs who were genuinely concerned about the distressed venture understood the level of risk involved, thus applying effectual logic by curbing the downside potential and mitigating the risks within the venture. They knew that creditors (PCF funders, pre-commencement financiers and suppliers who continue to supply the business) have a lot to lose as they have invested their money into the business. Expert BRPs who applied effectual logic understood that in BR, one cannot afford to lose resources and therefore would not risk more money than they were willing to lose in the process although they still pursued the required resources, such as PCF, regardless of the risk involved.

In addition, employees have a lot to lose given that should the business fail, they are at risk of losing their jobs, salaries and livelihoods. Expert BRPs therefore focused on mitigating risks and losses and ultimately saving the business. That said, the more a practitioner understood the level of risk and what was at stake, the more they focused on mitigating the risk and applying an effectual approach of curbing the downside potential, instead of adopting a causal approach which entailed chasing BRP fees for themselves with no concern for the distressed venture. These findings are consistent with the studies by Berends *et al.* (2014:9); Sabdia (2014:9); and Sarasvathy (2001:252), who assert that expert entrepreneurs who adopt the affordable loss principle when creating or entering new markets keep control over risk. These findings are further consistent with Deligianni *et al.* (2016:3), who postulate that the affordable loss is associated with minimising the potential losses by reducing the risks of new venture creation.

Chapter 6 of the Companies Act was also a moderator in BR decision-making, as it influenced BRPs to apply effectual logic given the obligation by the Companies Act for practitioners to limit the risks and losses within the distressed venture and not put the company in a worse position than it was at the commencement date. BRPs constantly reflected on their decisions to save the company and achieve a better return for creditors. Chapter 6 of the Companies Act therefore guided BRPs to apply extended effectual thinking in the BR process. The ability to limit losses and mitigate risks in BR was consistent with the study by Vanderstraeten (2016), namely that the success of a rescue depends on the ability of the practitioner to cut costs. In this regard, BRP competence also became a moderator because competent BRPs could apply effectual logic to mitigate risks and curb the downside potential while BRPs who apply causal logic only cared about chasing maximum returns for themselves in BRP fees instead of maximising returns for creditors.

In addition, reputation was a moderator as BRPs were concerned about their reputation in the industry. If the business failed and the venture was put in a worse position than in commencement, they could be sued which would damage their reputation in the industry. As such, BRPs who care about their reputation in the industry placed focus on balancing saving the business and jobs, and maximising returns for creditors (causal approach) while also mitigating and taking control over risk (effectual approach). In this instance, both effectual logic and causal logic were important. Thus, reputation as a moderator is consistent with Pretorius (2016), who states that BRPs depend on their reputation for their next appointment and would therefore do anything to ensure that their names are protected in the industry. Another moderator in BR decision-making was BRP fees. Expert BRPs understood that if the rescue failed, they risked going unpaid. As such, practitioners focused on the upsides of saving the business and maximising returns for the creditors (causal approach) while also mitigating risks and losses in the venture (effectual approach).

The findings of this study showed that affordable loss thinking in the BR environment may be different from new venture settings, where the entrepreneur is the one who engages in the principle. In BR, it is the key stakeholders that are affected by affordable loss thinking. These stakeholders are the creditors who are at risk of losing the funds they have invested in the business, employees who risk losing their jobs and livelihoods and lastly, there is a personal risk to the BRP who risks losing their fees and their reputation if the venture fails.

From this discussion, various factors moderated the decision-making to lean towards effectual and/or causal logic for the affordable loss principle. Based on the study findings, the most important factor that expert BRPs were cognisant of when evaluating a DVO was their optimism in the process because the more optimistic a practitioner was, the more successful their proposals and attempts to save the business. In addition, expert BRPs who applied effectual logic understood that there was a high level of risk involved in the BR space and thus worked towards mitigating the risks within the venture. Chapter 6 of the Companies Act was also an important factor, as BRPs were obligated to limit the risks and losses to ensure they achieved a BRiL and applied extended effectual thinking. Moreover, BRP fees were an important factor driving BRPs to succeed in order to be paid; however, BRPs should not take on matters simply for financial gain. Their reputations should also be considered; if the venture fails they might be blamed. Finally, expert BRPs understood that the focus

should be on saving the business (concentration on upsides) and also applying an effectual approach of limiting risks and losses within the venture to achieve the envisioned solution.

7.2.4 Crazy quilt

Figure 7.4 depicts the factors that moderate the inclination towards effectuation and/or causation for the crazy quilt principle. This figure is based on the findings from participants and the white rectangle in the figure (next to both) indicates that for the crazy quilt principle, practitioners lean towards effectual thinking in practice.

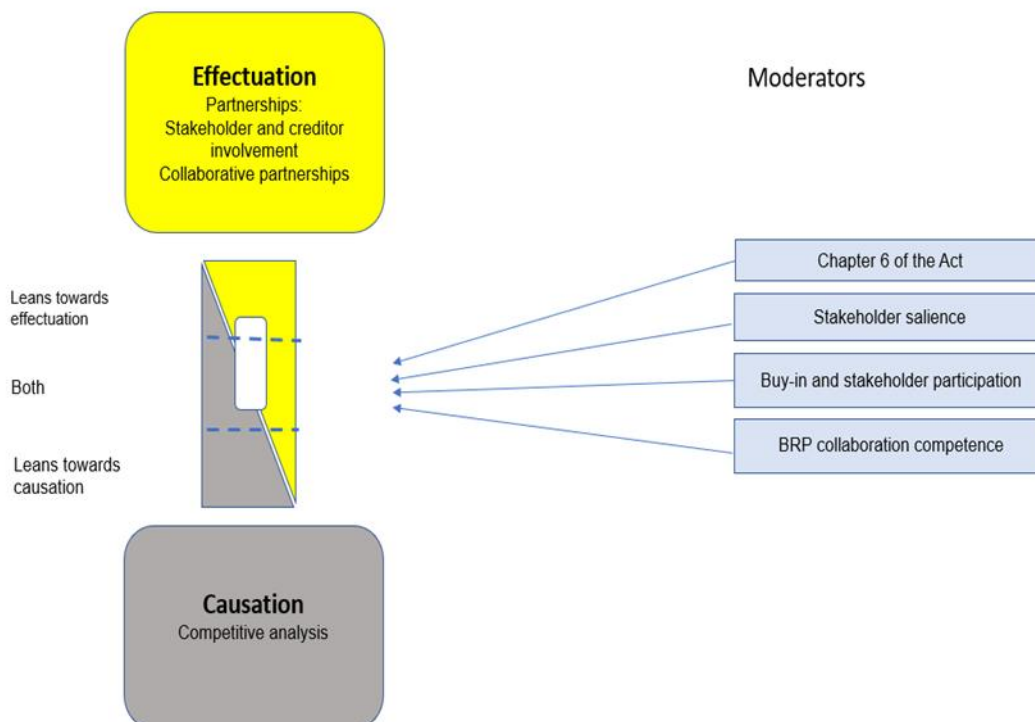


Figure 7.4: Moderating factors towards effectuation and/or causation for the crazy quilt principle (self-evaluation).

Participants acknowledged the use of the crazy quilt principle in practice. The crazy quilt principle of effectuation favours building relationships and bringing self-selected stakeholders on board to co-create the venture whereas causal logic puts more emphasis on competitive analysis to define the market, select market segments and thereafter use the specifications of the specific market to determine the stakeholders to be pursued. Based on Figure 6.4 in Chapter 6 of this study, participants showed a slight inclination towards effectual logic. In BR, decision-making concerning stakeholder participation and

collaboration was influenced by various factors such as the size and type of the company, the nature of the stakeholders involved and the nature of the environment (hostile or non-hostile).

Based on the findings of this study, various factors strengthened or weakened the BRPs' decision to lean towards effectual and/or causal logic. Chapter 6 of the Companies Act was one of the moderators identified from the study findings. Based on the findings, BRPs were required by the Companies Act to involve everyone in the BR process. In line with Section 7k of the Companies Act, BRPs are obligated to balance the rights of all stakeholders and give everyone a fair chance to contribute to the solution; thus, applied effectual thinking in decision-making in the BR process. Expert BRPs who leaned towards effectual logic understood that during the process, all stakeholders had to be involved and allowed to contribute towards the solution, regardless of their voting power.

Expert BRPs engaged with all stakeholders such as employees, management, unions, customers, suppliers and creditors to balance their rights. BRPs understood that without the stakeholder's involvement, their plans would be a waste of time. The involvement of all stakeholders in BR is consistent with Ghazzawi (2018), who asserts that the presence of different stakeholders and the management of these stakeholder relationships during the decline and turnaround of the venture is important. However, while BRPs underscored the importance of involving everyone in the process, it was argued that BR is a creditor-driven process and as such BRPs tend to give much preference to stakeholders with voting power. This then brings us to the second moderator regarding stakeholder salience, namely the extent to which practitioners give priority attention to stakeholders who have a voting interest/power in BR.

Expert BRPs understood that, to have their plans approved, they needed to play to the bigger creditors, especially the secured creditors to obtain their buy-in (vote). BRPs also understood that these stakeholders were the ones who could fund the rescue; without their support, the rescue was doomed. In this regard, while practitioners considered everyone as important in the process, stakeholders with voting power did take precedence to achieve a successful rescue. The prioritisation of stakeholders who have voting power is consistent with Trahms *et al.* (2013), who state that identifying influential stakeholders that are critical to the survival of the business is important to any turnaround attempt, given their potential to affect turnaround actions and subsequently influence firm survival. Therefore, the more a

practitioner can balance the interests of all affected parties in the process and also identify and prioritise influential creditors with voting power, the more effectuation becomes possible.

In addition, the buy-in and participation of stakeholders was also a moderator that strengthened or weakened the adoption of effectual or causal logic. Expert BRPs understood the importance of obtaining buy-in from creditors to have their plans approved. Based on the study findings, some BRPs preferred the creditors committee to participate in the process, especially in larger engagements such as listed companies where they had a large consortium of creditors. In these engagements, practitioners experienced difficulty in engaging with each creditor on an individual level and thus the creditors committee made it easier for BRPs to communicate. By engaging with creditors, especially early on in the process, practitioners could solicit inputs into their plans, reduce hostility in the process and create a transparent process. Expert BRPs could solicit buy-ins to pave the way for the approval of the plan and the ability to source funding from creditors. However, non-preference of the creditors committee was based on the smaller size of the engagements and smaller groups of creditors because, in those instances, BRPs found it to be a waste of effort and time. Regardless, the more buy-in and participation of stakeholders in the BR process, the more effectuation became possible.

Another moderator for the crazy quilt principle in BR was BRP collaboration competence. Competent BRPs understood the importance of collaboration, which entailed engaging with various people who understand the company, forming collaborative partnerships and bringing in potential partners who play a role in the future of the company. Expert BRPs involved everyone - including the employees, potential funders, suppliers, creditors, customers and any other critical players who would contribute to the solution. Collaborative, competent BRPs interacted with all these stakeholders, especially early on in the process, to obtain their buy-in and support in the rescue.

Collaborative, competent BRPs also involved people who were previously within the distressed venture, given the institutional knowledge they possessed, whilst also identifying new partners who could bring in new ideas, skills and even funding as and when required. Expert BRPs ensured that all these engagements and collaborations took place before the publication of the BR plan, to test the waters and ensure there was consensus and buy-in from all stakeholders, especially the creditors who voted on the plan. Thus, the more a BRP

had collaboration competence, the more effectuation was possible, contributing to a higher chance of the BR plan being accepted by stakeholders and the rescue being a success.

The use of partnerships and collaborations is consistent with the studies by Duening *et al.* (2012); Sabdia (2014); and Sarasvathy (2001) which state that collaborative partnerships are crucial in expanding resources and the expert entrepreneur constantly engages with different people, having intentions of co-creating the venture together. In BR, the engagements with critical suppliers, for instance, assist BRPs to expand their means where the suppliers can continue to supply the distressed venture with raw materials when needed. Moreover, buy-in and collaboration from stakeholders also assist with getting the BR plan approved whilst expanding means by obtaining funding from creditors in the form of PCF.

In BR, it can therefore be argued that the crazy quilt principle may influence resources. The crazy quilt principle influences the vote and the ability to obtain resources in the form of PCF, and continued supply of raw materials from creditors with better negotiated terms. These findings are consistent with the study by Nguyen *et al.* (2018), who postulate that effectual logic puts more emphasis on the cooperation of stakeholders to extend means and resources, reduce or divide uncertainty and obtain support for decision-making.

Therefore, the stakeholders involved in BR are more formal and some of these stakeholders are somewhat associated with the distressed venture. These are creditors, suppliers, employees, and unions and from time to time more stakeholders could be added in the form of PCF funders and new experts or consultants whenever required. This is different from new venture settings, where stakeholders are drawn from less formal connections such as friendships, acquaintances and other personal networks (Sarasvathy, 2001).

The discussion above shows that various factors in practice moderated decision-making for the use of effectual or causal logic for the crazy quilt principle. The most important factor that expert BRPs were acquainted with when evaluating a DVO was Chapter 6 of the Companies Act, which required them to balance the rights of all stakeholders and involve all stakeholders in the process and thus the need to adopt effectual logic. Stakeholder salience was also an important factor, as expert BRPs who applied effectual logic understood the importance of prioritising stakeholders with voting power to obtain their support and buy-in. Thus, expert BRPs preferred the use of a creditors committee, especially in large engagements with many creditors to get creditor buy-in before the publication of the BR

plan. Lastly, expert BRPs possessed BRP collaboration competence, forming partnerships and working with previously involved stakeholders willing to share the risks and benefits of the distressed venture.

7.2.5 Lemonade principle

Figure 7.5 depicts the factors that moderate the inclination towards effectuation and/or causation for the lemonade principle. The figure is based on the findings from participants and the white rectangle in the figure (next to both) indicates that practitioners apply both logics but lean towards effectual thinking in practice.

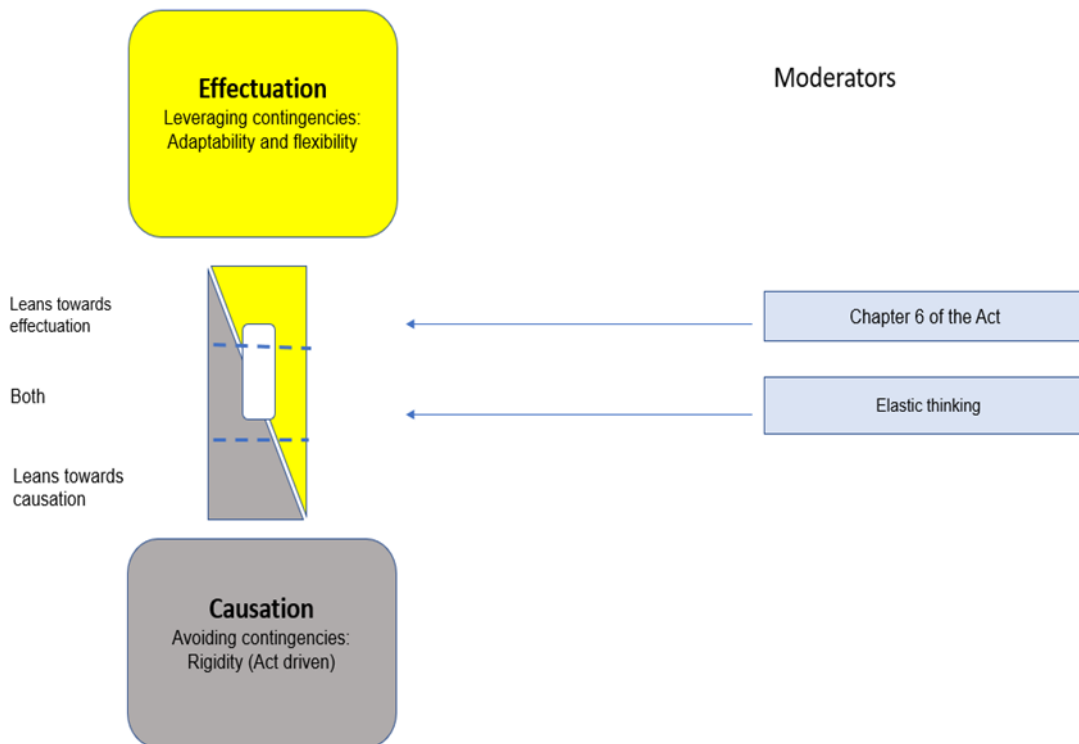


Figure 7.5: Moderating factors towards effectuation and/or causation for the lemonade principle (self-evaluation).

Participants acknowledged the use of the lemonade principle in practice. The lemonade principle captures that effectual entrepreneurs cope with what comes their way and learn to transform negative contingencies into new opportunities instead of making explicit efforts aimed at avoiding surprises (causal logic). Although participants applied both effectual and causal logic concerning this principle, based on Figure 6.5 in Chapter 6 of this study,

participants showed a slight inclination towards effectual logic in practice. It is important to note that BRPs work in an environment filled with uncertainties and circumstances are constantly changing and their solutions also change along the BR process. That said, some factors strengthened or weakened BRP's decision-making to adopt effectual or causal logic concerning the lemonade principle in practice.

Chapter 6 of the Companies Act was a moderator in BR decision-making and based on the findings of the study, practitioners were obligated by the Companies Act to stick with an adopted plan and make sure to implement it as is. That means that if there were changing circumstances and the plan had already been adopted, practitioners were legally obliged by the Companies Act to implement the original plan. Thus, practitioners may have been considered rigid, although they argued it was due to the lack of permission granted them by the Companies Act, which limits/weakens practitioners' application of effectual logic. BRPs were somewhat forced to stick with an adopted plan and thus applied causal logic.

Another moderator to the lemonade principle in BR was elastic thinking. The more elastic practitioners were in their thinking, the more effectuation was possible. Expert BRPs who applied effectual thinking understood the ever-changing state of circumstances, with new information requiring them to be adaptable and flexible. In this regard, the findings of the study indicated that if the BR plan had been adopted and there were changing circumstances that were detrimental to the plan, then a new plan had to be proposed, which then needed to be approved by the creditors and implemented thereafter. In this instance, BRPs who possessed elastic thinking applied effectual thinking, as they were flexible to changing circumstances as and when they arose. These findings are consistent with the study by Duening *et al.* (2012), who assert that the expert entrepreneur learns that there should be a justifiable reason for the need to change business strategies in the first place and further seek evidence that will justify the need for the change. Similarly, BRPs understood that the new information was detrimental to their plans and thus became a valid and justifiable reason to make changes to the BR plan.

In addition, the findings also indicated that participants could adapt to changing circumstances at any time when the BR plan was still in the development stage. If there was something fundamental that hampered the plan and required a change, these changes were communicated with the affected parties. Again, elastic thinking becomes an important skill in the process as per Dew *et al.* (2009), who indicate that the important thing for

entrepreneurs is the willingness to change when they are faced with new information, surprises or new means.

Participants further cautioned against rigidity, arguing that being rigid may land the practitioner in trouble; as such, it was crucial to always leave room for changing circumstances or new information. These findings were therefore consistent with Duening *et al.* (2012), who state that expert entrepreneurs become fully aware that adaptability is a fundamental characteristic of building a successful venture. Similarly, BRPs understood that it was important to have elastic thinking and be adaptable to changing circumstances to achieve their envisioned solutions.

The discussion above showed that, with regard to the lemonade principle, expert BRPs showed a slight leaning towards effectual thinking in practice. Only two factors were identified from the study findings that may have moderated the inclination towards effectuation and/or causation for the lemonade principle. The first was Chapter 6 of the Companies Act, which influenced BRP's decision-making to stick with an adopted plan and thus limited their ability to apply effectual thinking. The second important factor was elastic thinking, where expert BRPs who applied effectual logic understood that circumstances change which requires them to be open-minded and adapt accordingly.

Based on the findings regarding the applicability of the effectuation principles and some elements of causation to the DVO, this study proposes the following:

Proposition 1: *All five principles of effectuation (and some causal elements) can be confirmed to be relevant to the distressed venture opportunity decision-making.*

7.3 THEME 2: PERCEPTIONS OF INDUSTRY BY PARTICIPANTS

The second research question addressed whether practitioners apply any of the effectuation principles in the BR industry, based on the perceptions of the participants interviewed. In discussing the findings of this sub-question, the sections below discuss the factors that moderate the inclination towards effectuation and/or causation in the industry based on the study findings.

7.3.1 Pilot-in-the-plane

Figure 7.6 depicts factors that moderate the inclination towards effectuation and/or causation for the pilot in the place principle in the industry. The figure is based on the study

findings and the white rectangle in the figure (next to both) indicates that practitioners in the industry lean towards causal thinking based on the perception of the practitioners. Participants acknowledged that in the industry, the pilot-in-the-plane principle exists and it applies to the DVO. With regards to the perception of the industry concerning the use of the pilot-in-the-plane principle, participants felt that inexperienced and incompetent BRPs (novices) get into a distressed venture with a preconceived idea of what the solution may be without proper due diligence of the venture. These practitioners were considered to be stubborn-minded, doing things in a rush and most likely taking what they were being told at face value from the first meeting with management, without conducting investigations to confirm their solutions.

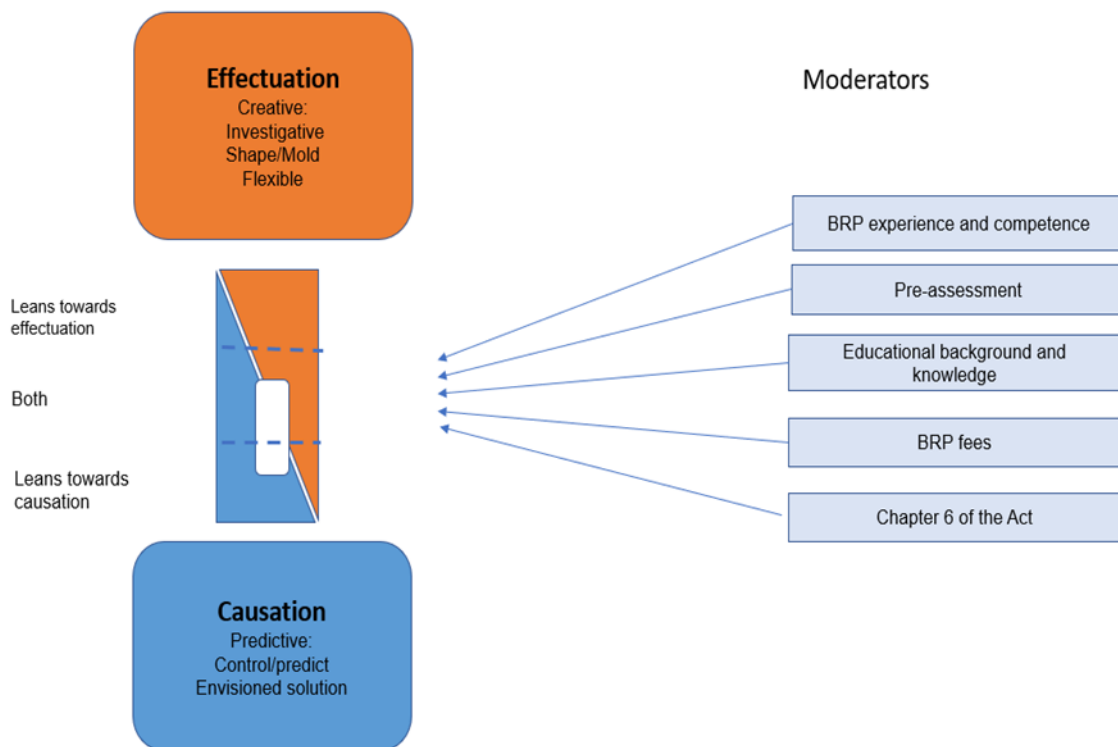


Figure 7.6: Moderating factors towards effectuation and/or causation for the pilot-in-the-plane principle (Industry judgement).

In this regard, most participants argued that they were not convinced that, in the industry, BRPs invest sufficient time in assessing the venture as they should but instead inexperienced and incompetent BRPs apply a causal approach to predicting the solution. This is a different perception from what expert BRPs did in the industry, as they focused on

conducting thorough investigations before determining a possible solution. It can therefore be argued that the more experienced and competent the BRP, the more effectual logic is applied. It is important to note that experience and competence as a moderator was also associated with means at an individual level, as per Barney (1991) and Sarasvathy (2001) who postulate that means at hand may include skills and personal knowledge. In this regard, it can be argued that BRPs with experience and competence are considered the means at hand (bird-in-hand), which influenced their ability to successfully execute their tasks and apply the pilot-in-the-plane principle (execution and control).

BRP experience and competence were therefore important moderators in the BR space when evaluating a DVO. Experienced and competent BRPs understood the importance of conducting an assessment (investigation), investing their time in gathering information and taking longer to develop their strategies. According to the participants' perception, experienced BRPs did not rely on only their gut feeling but were constantly willing to change their proposed solutions as they received new information in the process of their assessments. Experienced and competent BRPs were therefore found to apply effectual logic where emphasis was placed on conducting thorough assessments rather than predicting what the ultimate solution would be.

In addition, some BRPs in the industry did not conduct pre-assessments, the second moderator for the pilot-in-the-plane principle. Contrary to what expert BRPs usually do (conducting a pre-assessment before taking on appointments), participants believed that in the industry, there was a lack of pre-assessments being conducted and that these practitioners were often surprised by new information. The lack of pre-assessments is therefore blamed for the failure rate and bad reputation of BR, as poor rescue candidates were put into rescue erroneously. The BRPs who conduct pre-assessments applied effectuation while the lack of pre-assessments resulted in the prediction of inappropriate solutions, thus there was a leaning towards a causal approach being applied.

Participants shared their views as to why BRPs in the industry evaluate the DVO the way they do, especially BRPs who considered having a solution from the first meeting with management. Participants mentioned educational background and knowledge as a moderator wherein it was argued that in the industry, most BRPLLs were perceived to have a pre-conceived idea of the solution before assessing the distressed venture and thus applied a causal approach. In this regard, participants associated failure in BR with the lack

of proper educational background and knowledge in the industry. The lack of turnaround background and knowledge in the industry therefore influenced the quality of the plans presented and the type of solutions being pursued; for example, pursuing a BRiL is associated with the lack of turnaround knowledge. This is consistent with the study by Pretorius (2015:5), who postulates that banks typically associate the lack of turnaround intention/knowledge with the choice to pursue a BRiL rather than reorganisation and also equate this to the incompetence of BRPs - although BRiL is an alternative BR outcome stipulated in the Companies Act. BRPs from a turnaround or a financial background on the other hand are perceived to invest their time in conducting investigations and proper due diligence to arrive at their solutions and thus adopting an effectual approach, which is about execution rather than prediction and is thus consistent with Sarasvathy (2001). That said, the more BRPs have turnaround knowledge and come from either a financial or turnaround background, the more an effectual approach can be applied in the BR process while the lack thereof results in the leaning towards causal logic.

In addition, participants mentioned that some BRPs in the industry took on appointments because they were only pursuing BRP fees, a moderator that strengthens practitioners' decision-making to lean towards either effectual and/or causal logic. It was argued that some BRPs in the industry were only concerned about how much money they could make in the process without investing their time in the distressed venture and hence mediocre plans were presented. These findings support the studies by Levenstein (2016) and Lusinga (2019:12), who state that BRPs who are opportunists are more concerned about pursuing BRP fees (underwriting fees) for a prolonged period to benefit them financially instead of pursuing a reorganisation, and BRiL is often chosen by these practitioners as the easier option to be pursued. These BRPs do not invest time in assessing the venture and as such are found to adopt causal thinking of predicting what the solution may be based on the information bias provided by management. There is also pressure from the Companies Act, specifically the 25-day requirement to publish the plan and thus some BRPs must present desktop plans which are not up to standard. Chapter 6 of the Companies Act is therefore a moderator in BR decision-making, as it limits BRPs from effectively applying effectual logic. Due to the pressure presented by the Companies Act, some BRPs did not investigate the businesses or apply their minds to the issues, thus affecting BR.

Based on the discussion of participants' perceptions, the study found that various factors in practice influence the inclination towards effectual and/or causal logic for the pilot-in-the-plane principle. It was found that the ability to effectively apply effectual logic concerning the pilot-in-the-plane principle depended on BRP experience and competence as an important moderator. Inexperienced and incompetent BRPs entered a distressed venture with a preconceived idea of what the solution should be without conducting a thorough investigation. However, experienced and competent BRPs were found to apply effectual logic by conducting assessments rather than predicting what the solution may be. It was noted that there was a lack of pre-assessments done, thus contributing to a low success rate in BR. In addition, the lack of proper educational background and turnaround knowledge by most BRPs propelled practitioners in the industry to pursue more BRiL solutions, rather than a reorganisation. It was found that BRPs from a turnaround background invested their time in investigations and pursued a reorganisation and thus applied effectual thinking. It was also argued that BRPs tend to pursue BRP fees rather than investing their time in distressed ventures, alongside the pressures presented by the Companies Act.

7.3.2 Bird-in-hand

Figure 7.7 depicts factors that moderate the inclination towards effectuation and/or causation for the bird-in-hand principle in the industry. The figure is based on the study findings and the white rectangle in the figure (next to both) indicates that practitioners in the industry lean towards effectual logic based on the perception of the practitioners.

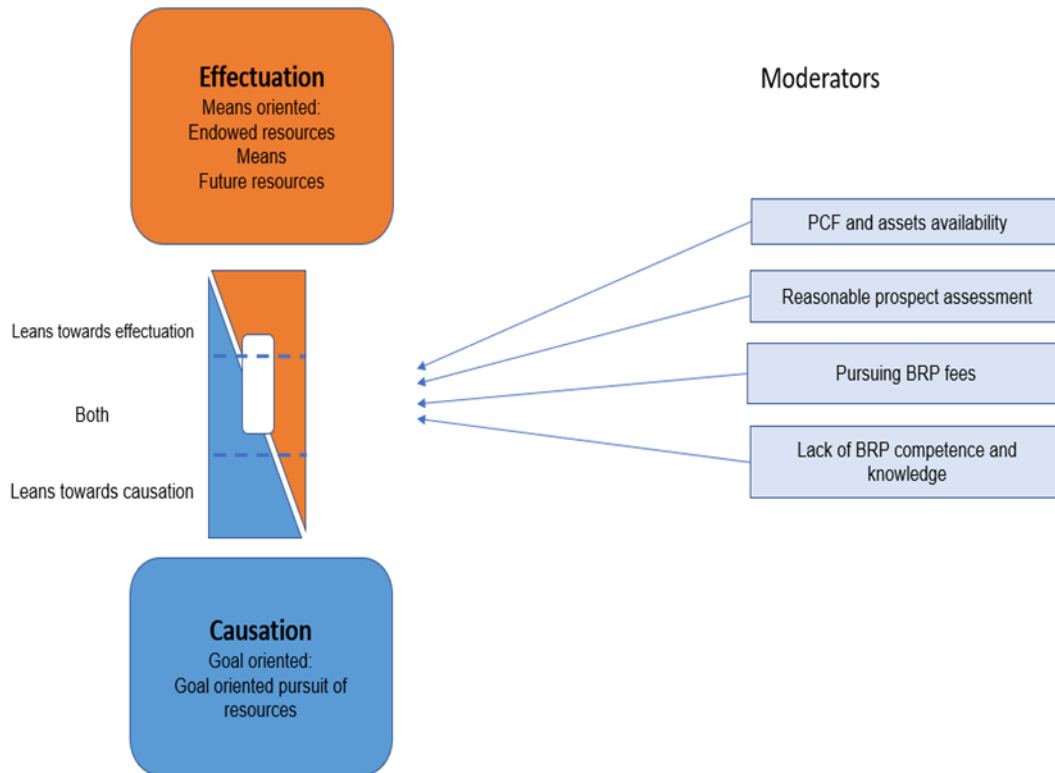


Figure 7.7: Moderating factors towards effectuation and/or causation for the bird-in-hand principle (Industry judgement).

Participants acknowledged that the bird-in-hand principle is used in practice by BRPs in the industry. Contrary to what BRPs do in practice, where they use available resources and further source additional resources when required, participants were of the perception that in the industry, most BRPs only work with the available resources to achieve their envisioned solutions. Participants mentioned that BRPs in the industry checked the availability of resources (PCF and assets) and then determined the solution to be pursued. They also assessed whether they could recover some money for creditors based on the availability of the assets. PCF and asset availability were, therefore, found to be moderators that strengthened BRPs in the industry to apply effectual logic. The availability of resources propelled BRPs in the industry to lean towards effectual logic, focusing on resources available within the venture, instead of conducting an overall assessment of the available resources (effectual logic). Thereafter, they could be supplemented by acquiring additional resources when required to support the envisioned solution (causal logic) - thus applying both logics. While the use of available resources indicates the application of the bird-in-hand

principle and supports the study by Sarasvathy (2001), participants were of the view that this limits the practitioners' responsibility to find additional resources.

Instead of only relying on available means, participants mentioned that BRPs must assess whether RP exists; this assessment required practitioners to assess the availability of resources within the distressed venture. If these were insufficient, BRPs had to find them elsewhere. RP is a more important moderator in BR and participants caution against making a judgement based purely on the resources available; they recommend an RP and a pre-assessment before taking on an appointment. The better the RP assessment, the more BRPs grasp the available means and navigate between using both logics of using available means (effectual approach) and pursuing the required resources to achieve their visualised solutions (causal approach). This, therefore, supports the study by Fisher (2012) and Sarasvathy (2001), who argue that both effectuation and causation can be used in a complementary manner depending on the specific context and entrepreneur must be able to have an understanding as to under which circumstances it would be appropriate to use either an effectual or a causal logic.

Participants provided additional moderators when asked why BRPs in the industry were perceived to focus only on available resources. According to them, in the industry, focus is on available resources as most practitioners are more concerned about pursuing BRP fees than pursuing additional resources when required. Thus, the more BRPs focus on personal financial gain, the more focus is on assessing in-pocket resources as opposed to company resources; this limits the application of both logics of assessing the available resources (effectual approach) and pursuing additional resources (causal approach). Participants also mentioned that the reason why BRPs concentrated on the use of available means is due to its ease, speaking to BRP competence and knowledge as an important moderator for applying causation and/or effectuation.

To be specific with regards to BRP competence and knowledge, participants stated that BRPs in the industry lacked emotional intelligence and communication/negotiation/financial skills. These skills contributed to the competence of a BRP. As they lacked the knowledge and competence to pursue additional resources, they worked purely with available resources. Thus, the more competent and knowledgeable a practitioner was, the more they navigated between applying both effectuation and causation in a complementary manner.

Based on this discussion, the study found that various factors may influence the inclination towards effectual and/or causal logic for the bird-in-hand principle in the industry. From the factors identified, it was found that BRPs in the industry tend to assess the availability of resources (leaning towards effectuation) and determine the solution to be pursued instead of conducting RP assessment and thereafter pursuing additional resources when required. This is contrary to what expert BRPs mentioned they did. It is, therefore, clear that the perception is that the availability of assets and PCF drives many solutions in the industry. RP assessment was an important factor in BR decision-making and BRPs cautioned against relying only on the available means. They recommended an RP assessment to inform practitioners of available means and additional future resources required. It was also found that BRPs looked for resources that serve them, instead of pursuing additional resources and thus there is a leaning towards only effectual logic. Lastly, there appears a lack of BRP competence in the industry, where BRPs were not equipped with the right skills to apply both effectual and causal logic in practice. It was judged that BRPs lacked the competence to pursue the required resources when needed.

7.3.3 Affordable loss

Figure 7.8 depicts factors that moderate the inclination towards effectuation and/or causation for the affordable loss principle in the industry. This figure is based on the study findings and the white rectangle in the figure (next to both) indicates that practitioners in the industry adopt both effectuation and causation but lean more towards effectuation based on the perception of the practitioners.

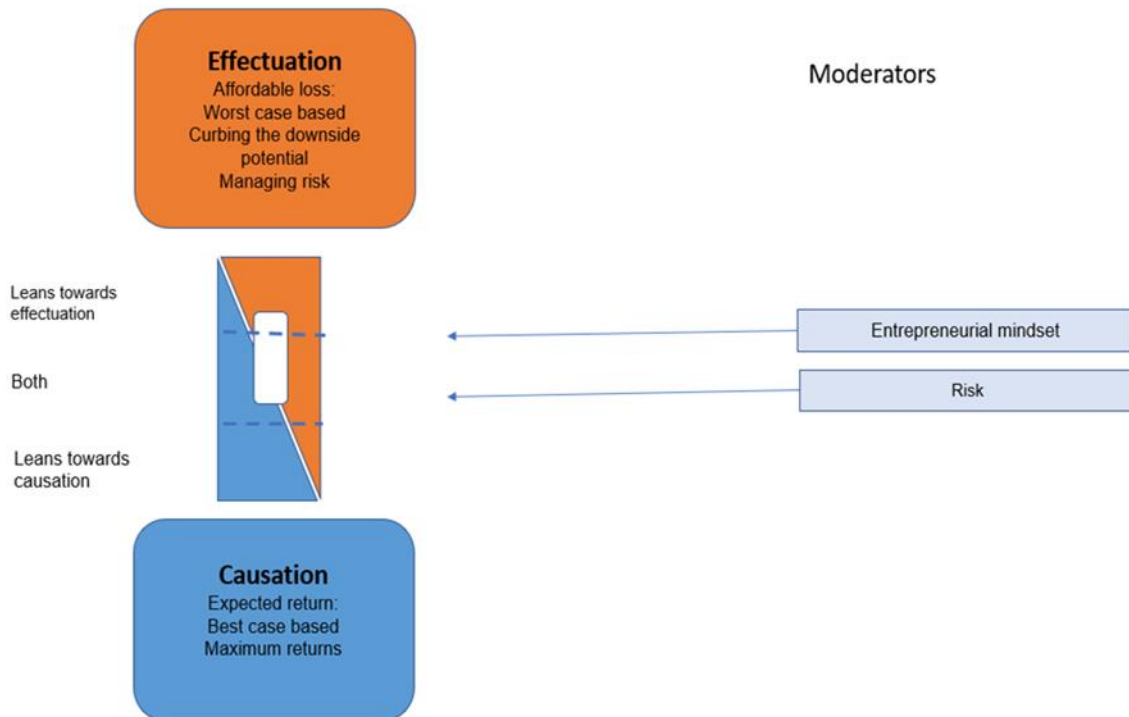


Figure 7.8: Moderating factors towards effectuation and/or causation for the affordable loss principle (Industry judgement).

Participants acknowledged that the affordable loss principle is applied by BRPs in the industry. There were two moderators for the affordable loss principle based on the participants' findings that strengthened BRPs' ability to apply causal and/or effectual logic. Similar to what expert BRPs did, BRPs in the industry also leaned towards both effectuation and causation within this principle. Participants shared their perception that, in the industry, most practitioners focused on the upside - "the best-case scenario" - and determined how it could be achieved. BRPs in the industry were therefore perceived to put their focus on improving the situation within the distressed venture, saving jobs and ultimately saving the business. Having an entrepreneurial mindset drives practitioners to be concerned about what the solution can bring to the table to achieve a successful rescue. BRPs' entrepreneurial mindset was, therefore, a moderator in BR decision-making as practitioners who focused on the upsides having "entrepreneurial thinking" focused on saving the business and the focused on the upsides. This is consistent with Arend *et al.* (2015), who argue that the affordable loss principle in effectuation does not leverage the upside volatility explicitly in decision-making; this study focused on the potential upsides that BRPs concentrate on to achieve their solutions.

In addition to leveraging the upsides, participants were also of the view that in the industry, the focus is also on what could be affordably lost. The higher the level of risk, the more focus is placed on curbing the downside potential and on what can be done in the distressed venture without causing additional damage. This supports the affordable loss principle and is also consistent with Sarasvathy (2001). When BRPs understand the level of risk and the stakes involved, the more effectuation is applied. In the industry, BRPs were found to lean towards both causal and effectual thinking concerning the affordable loss principle.

From the above, the two important factors that moderated the inclination towards effectuation and/or causation for the affordable loss principle in the industry. These were BRP entrepreneurial mindset, where practitioners in the industry focused on the upsides of saving the business (best-case scenario) and risk, where BRPs applied effectual logic in the industry to assess the level of risk to curb the downside potential.

7.3.4 Crazy quilt principle

Figure 7.9 depicts the factors that moderate the inclination towards effectuation and/or causation for the crazy quilt principle in the industry. The figure is based on the study findings and the white rectangle in the figure (next to both) indicates that practitioners in the industry lean towards effectuation based on the perception of the practitioners.

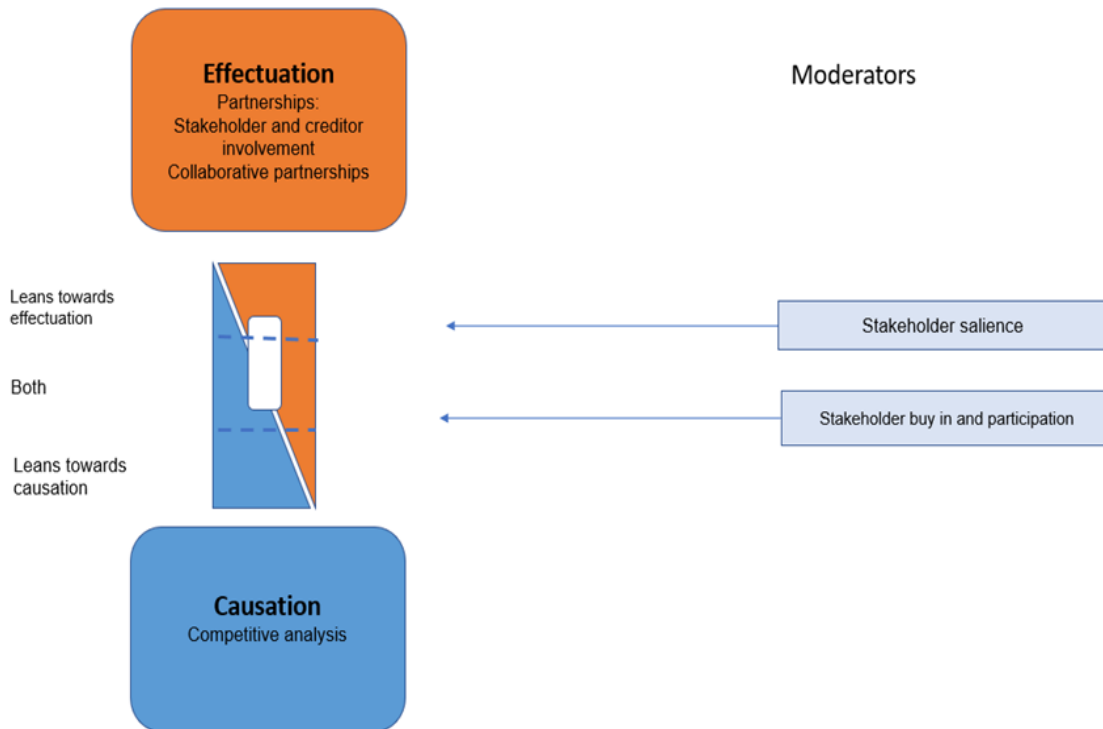


Figure 7.9: Moderating factors towards effectuation and/or causation for the crazy quilt principle (Industry judgement).

Participants acknowledged the use of the crazy quilt principle in the industry. Based on the study findings, the majority of the participants interviewed believed that, in the industry, most BRPs likely focused on stakeholders with voting power instead of working towards balancing, as they strived to balance the rights of all stakeholders and involved everyone in the process. This important moderator is known as stakeholder salience. BRPs in the industry understood that BR is a creditor-driven process and playing to bigger creditors would help them obtain more support. However, whilst they did try to balance all stakeholder's rights, those with voting rights were prioritised (effectual logic) due to their ability to influence the process through voting and funding. The preference for stakeholders with voting power is consistent with the studies by Le Roux and Duncan (2013) and Lusinga (2019), who state that creditors play a significant role during the BR process due to their rights and ability to influence the process through their votes on the BR plan.

Stakeholders' buy-in and participation was also an important moderator that strengthened or weakened BRPs' ability to apply effectual and/or causal logic. When asked why BRPs in the industry focused on stakeholders with voting power, participants stated those votes could help accept the plan, as well as create buy-in. With more buy-in, BRPs could find

support and funding for the rescue, thus effectuation was applied and the crazy quilt principle was applicable, as per Sarasvathy (2001). Moreover, BRPs in the industry focused on stakeholders with voting power understanding that once the plan was approved, they would receive their BRP fees.

This study therefore found that two important factors in practice inform decision-making to lean towards effectuation and/or causation for the crazy quilt principle in the industry. The first factor was stakeholder salience, where BRPs played to bigger creditors to ensure votes and buy-in for financial support (PCF). The second factor in the industry was stakeholder participation and buy-in; it was found that BRPs who applied effectual logic in the industry understood the importance of obtaining buy-in from creditors and also their participation in the process, which was crucial to the success of the overall rescue.

7.3.5 Lemonade principle

Figure 7.10 depicts factors that moderate the inclination towards effectuation and/or causation for the lemonade principle in the industry. The figure is based on the study findings and the white rectangle in the figure (next to both) indicates that practitioners in the industry lean towards effectual logic based on the perception of the practitioners.

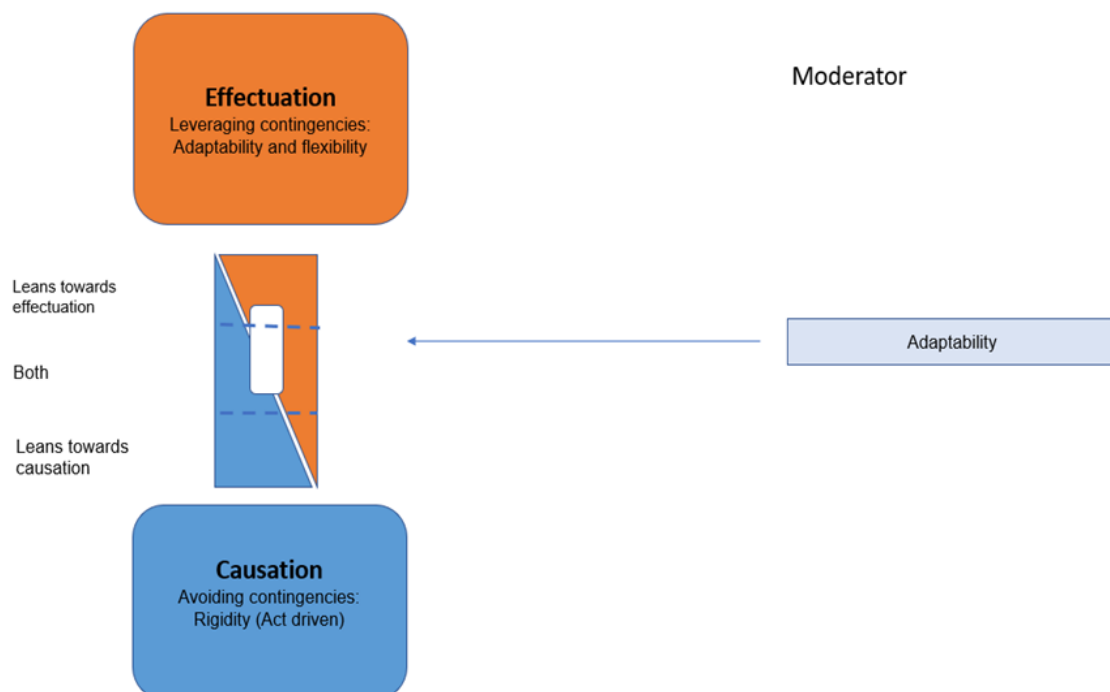


Figure 7.10: Moderating factors towards effectuation and/or causation for the lemonade principle (Industry judgement).

Showing support for the lemonade principle and its use in BR, participants indicated that in the industry, most BRPs were willing to amend their plans due to changing circumstances. This is similar to what BRPs did in practice, especially when the plan had not yet been adopted. Participants stated that the first version of the BR plan was hardly the final (published) version; they were aware that circumstances may change and the creditors may ask for amendments which were not anticipated or BRPs may receive new information that required them to adapt. Adaptability was therefore an important moderator that strengthened practitioners' ability to apply effectual logic rather than causal logic (Sarasvathy, 2001). These findings support the lemonade principle and the study by Dew *et al.* (2009), who indicate that entrepreneurs must be willing to change when faced with new information, surprises or new means. When asked why BRPs must be adaptable, participants stated that circumstances were always changing and sometimes there may have been amendments required from creditors that push a practitioner into a corner. Moreover, the dynamic BR space, filled with uncertainty, required BRPs to adapt.

Based on this discussion, it can be concluded that in the industry, adaptability was an important moderator for the lemonade principle. BRPs in the industry were found to lean towards effectuation with an understanding that the BR space is dynamic and things change along the BR process. BRPs understood that they would be faced with new information, means and surprises which could require them to adapt to the BR process.

Table 7.1 provides a comparison of expert BRPs' self-evaluations and their perception of the industry for effectuation principles. A visual demonstration of this comparison is also attached in Appendix I.

Table 7.1: A comparison of expert BRPs' self-evaluation and their perception of the industry for the effectuation principles.

Principles of effectuation	What expert BRPs do in practice	BRP's perception of the industry	Factors that moderate the inclination towards effectuation and/or causation
Pilot-in-the-plane	<ul style="list-style-type: none"> Assessment (investigation-driven) Pre-assessment RP assessment <p>Strong inclination towards effectuation</p>	<ul style="list-style-type: none"> Idea-driven (pre-conceived solution) Lack of pre-assessment <p>Lean towards causation</p>	<ul style="list-style-type: none"> Competency and experience Educational background and knowledge BRP fees Pressure by the Companies Act (Chapter 6) Data integrity/certainty

Principles of effectuation	What expert BRPs do in practice	BRP's perception of the industry	Factors that moderate the inclination towards effectuation and/or causation
Bird-in-hand	<ul style="list-style-type: none"> • Uses available resources and seeks additional resources when required • RP assessment • Assesses employee skills and management competencies • Assessment (investigation-driven) <p>Applies both effectuation and causation but strongly leans towards causation</p>	<ul style="list-style-type: none"> • Assesses the availability of resource means (Assets and PCF) <p>Lean towards effectuation</p>	<ul style="list-style-type: none"> • RP assessment • BRP fees • BRP competence and knowledge
Affordable loss	<ul style="list-style-type: none"> • Upside focus (saving the business) • Curbing the downside potential • Reducing risks <p>Applies both effectuation and causation but strongly leans towards causation</p>	<ul style="list-style-type: none"> • Upside focus (saving the business) • Curbing the downside potential <p>Lean towards both effectuation and causation</p>	<ul style="list-style-type: none"> • Entrepreneurial mindset • Risk • BRP optimism • Chapter 6 of the Companies Act • Reputation • BRP fees • BRP competence
Crazy quilt	<ul style="list-style-type: none"> • Consideration of all stakeholders while priority is given to stakeholders with a key voting power <p>Slight inclination towards effectuation</p>	<ul style="list-style-type: none"> • In the process, priority is given to stakeholders with a key voting power <p>Lean towards effectuation</p>	<ul style="list-style-type: none"> • Stakeholder salience • Stakeholders buy-in and participation • Chapter 6 of the Companies Act • BRP collaboration competence
Lemonade	<ul style="list-style-type: none"> • Adaptability and flexibility to a non-adopted BR plan due to changing circumstances • Sticking with an adopted plan <p>Apply both effectuation and causation but slightly lean towards effectuation</p>	<ul style="list-style-type: none"> • Adaptability and flexibility to a non-adopted BR plan due to changing <p>Lean towards effectuation</p>	<ul style="list-style-type: none"> • Adaptability • Chapter 6 of the Companies Act

7.4 THEME 3: THE CHOICE FOR REORGANISATION/BRIL/LIQUIDATION

The third research question of this study addressed whether effectuation principles could inform the choice for reorganisation/BRiL/liquidation. The sub-themes that emerged from the study findings are discussed below.

7.4.1 Resources in business rescue

Figure 7.11 depicts the bird-in-hand factors that inform the choice for reorganisation/BRiL/liquidation. These are discussed in detail thereafter.

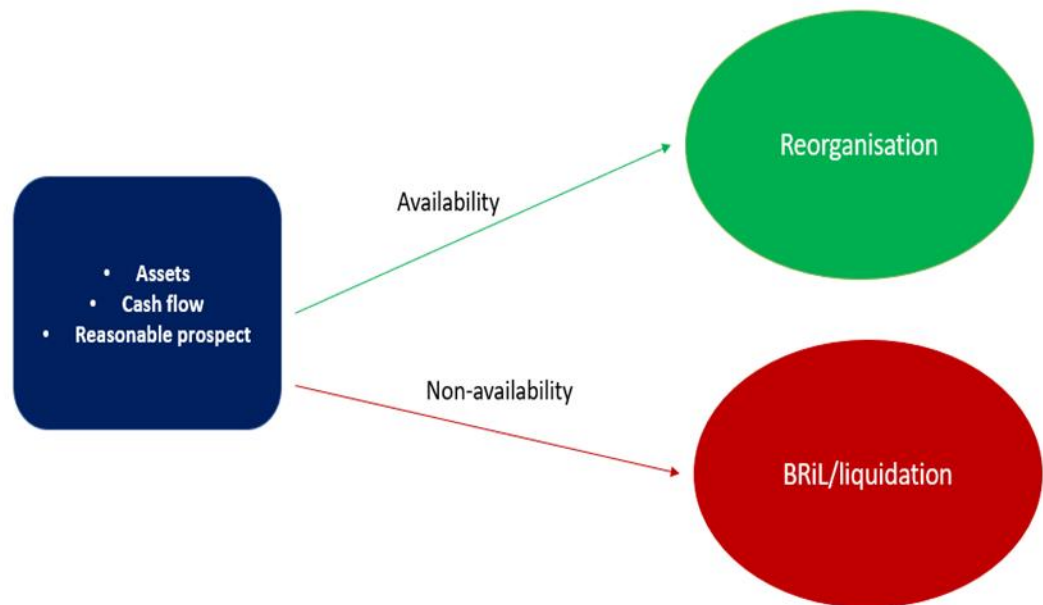


Figure 7.11: Bird-in-hand factors informing the choice for reorganisation/BRiL/liquidation.

The bird-in-hand principle was confirmed as applicable in practice and BRPs used it to inform their choice for reorganisation/BRiL/liquidation. Based on the study findings, BRPs assessed the resources available within the distressed venture alongside available means (tacit assets); this is consistent with the effectuation principle (bird-in-hand) as per Sarasvathy (2001). BRPs assessed whether the appropriate machinery and assets existed, as well as whether the liabilities exceeded the assets. If i) the liabilities exceeded the assets available or ii) there were no resources within the distressed venture, liquidation was chosen as the solution. Similarly, the choice for a BRiL was informed by the availability of assets and the ability to liquidate assets to achieve a BRiL for creditors. That said, the balance sheet -which details the available resources and the liability of the distressed venture – informed the various solutions BRPs could choose. The availability of resources, such as assets, was therefore an important moderator that strengthened BRPs to apply effectual logic in the BR process and ultimately the choice for a reorganisation.

BRPs also assessed whether there was sufficient cash flow in the distressed venture. The availability of PCF was therefore also an important moderator that strengthened the choice for effectual logic to be adopted. BRPs had to be aware if there was sufficient cash available to help run the business and pay for salaries; if not, then the venture had to be put straight into liquidation or a BRiL. This is supported by Cassim *et al.* (2021:882), who argue that distressed ventures placed under BR generally do not have cash nor assets and it becomes increasingly important to obtain some form of turnaround finance to reorganise successfully.

Given the context that distressed ventures are characterised by a lack of resource slack, BRPs found it important to assess resource 'means' which ultimately shape and inform the choices of the solutions to be pursued. The availability of cash flow and PCF implied that there was runway or cash to help run the business and as such, reorganisation became the pursued solution. However, the absence of cash flow could also inform the choice for a BRiL/liquidation. Thus, resources (means) in the form of assets, PCF, and cash flow alluded to the bird-in-hand principle, which helped inform BRPs on whether to follow reorganisation/BRiL/liquidation; these are important moderators in BR decision-making. If resources were readily available or it was possible to obtain them in future, both logics of effectuation (using available means) and causation (pursuing additional resources for example PCF) were applied. Therefore, reorganisation was possible, however, the opposite may have resulted in a BRiL and liquidation as the last resort.

7.4.1.1 Reasonable prospect assessment

In addition to assessing resources, the study findings showed that determining the choice for a reorganisation/BRiL/liquidation required BRPs to evaluate RP by conducting an assessment. RP assessment was an important moderator in BR decision-making and the stronger the assessment the more effectual and causal logic could be applied. A DWAB test requires practitioners to look at various elements over and above the assets, PCF and cash flow. In this regard, BRPs looked at the industry and determined whether it was overtraded, assessing the competition and the market share. It could be argued that because BRPs assessed the level of competition and the overall industry, they also used causal thinking as causal logic puts more emphasis on competitive analysis to define and select market segments (Dew *et al.*, 2009:293). These findings are also consistent with the study by Arend *et al.* (2015), who argue that in effectuation, elements such as contextual competition and other industry forces are overlooked.

Part of the RP assessment included an assessment of the longevity and going concern value of the business and resources available. BRPs assessed the existence of the market, product or service offered, demand, sales, the means of production and whether these means could be combined in such a way that the venture could be profitable. In addition, BRPs assessed whether there were machines and clients; if not, they sought to determine whether they could be regained for future resources. Once again, resources spoke to the 'bird-in-hand principle', which informed the solutions to be pursued by practitioners.

Once practitioners ticked these boxes and explained the logic for RP, they pursued a reorganisation as the first option and if reorganisation was not possible then a BRiL/liquidation was pursued. The RP test, therefore, helped practitioners assess the essence of the business holistically, including issues of labour and employment structure, the financial model and the losses and securities within the venture. Practitioners reviewed the fundamentals of the overall business to determine whether RP existed - the stronger the RP, the more reorganisation made sense. Unfortunately, when RP was weak, the solution was BRiL/liquidation. Finally, RP assessment included some principles of effectuation, such as the bird-in-hand, as well as causal elements of competition analysis which informed practitioners on the choice between reorganisation/BRiL/liquidation.

Therefore, in BR, resources such as assets, cash flow and PCF informed the choice for reorganisation/BRiL/liquidation. If there were enough resources, then reorganisation was selected; if resources were lacking, BRiL/liquidation was selected. It is noted that practitioners relied on RP as an important factor to inform them of the solution to be pursued. The RP assessment included principles of effectuation (bird-in-hand) and required BRPs to assess the available means and future resources for the process. Based on the findings above, this study therefore proposes the following:

Proposition 2: *The higher the quality of reasonable prospect and the higher the level of resources the more inclined practitioners are to choose reorganisation.*

7.4.2 Stakeholders in business rescue

Figure 7.12 depicts the crazy quilt factors that inform decision-making for reorganisation/BRiL/liquidation. These are discussed in detail below.

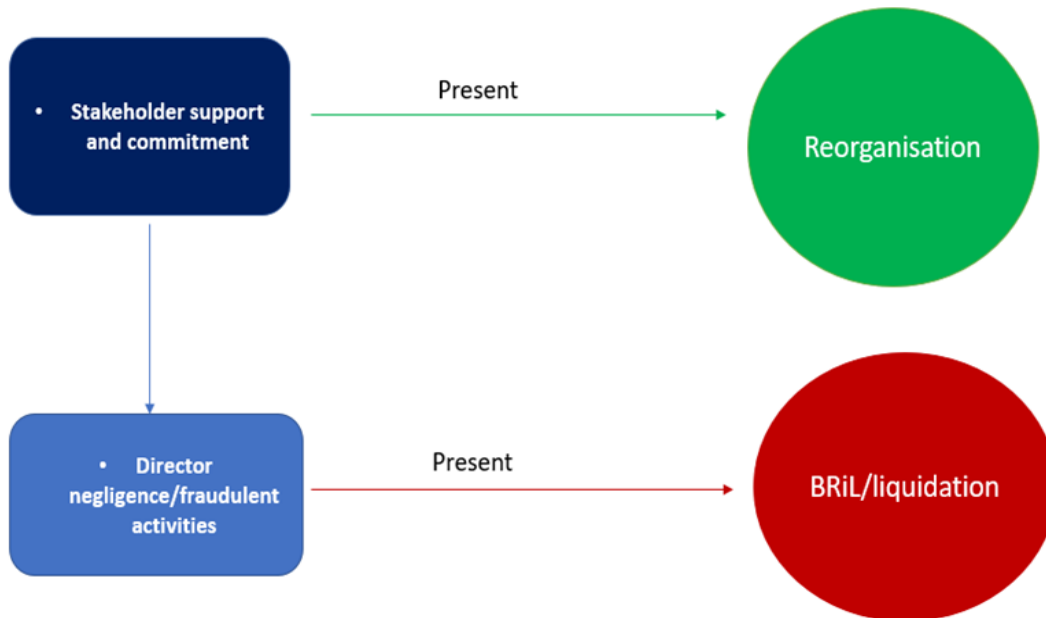


Figure 7.12: Crazy quilt factors that inform decision-making for reorganisation/BRiL/liquidation

Participants acknowledged the use of the crazy quilt principle in practice and based on the study findings, BRPs assessed whether there exists a business champion within the distressed venture. This champion was not the BRP but was chosen from management or the shareholders of the company. If found, BRPs supported these individuals to ensure success for the distressed venture during reorganisation. Stakeholder support and commitment was an important factor in BR decision-making, as the more buy-in and commitment there was, the more effectuation was possible. The findings highlighted that existing management and leadership within the business were important, as they had to actively participate in the rescue and implement the BR plan. BRPs had to be certain that existing leadership was committed and could continue to run the business in their absence to drive the business to success. Without managerial support, it was difficult to attract

funding for the venture, as BRPs engaged with banks to determine their willingness to support the rescue (which would lead to reorganisation).

Assessing whether operational management, shareholders, leadership, banks and their support/commitment existed spoke to the crazy quilt principle; this is supported by Dew *et al.* (2009), who expound that effectuation favours building relationships and bringing self-selected stakeholders on board to co-create the venture together. It must, however, be noted that the difference between an NVO and the DVO is that in a DVO, stakeholders already exist and hence BRPs had to work on obtaining support from existing stakeholders such as the management, shareholders, and banks and also obtain support from other potential stakeholders such as PCF funders. This support reinforces reorganisation as opposed to BRiL/liquidation as alternative options.

The findings also indicated that practitioners assessed whether there was any culpable negligence or director negligence that took place, in which case they would pursue a liquidation instead with an argument that a liquidator would be better suited for the task. Thus, stakeholder actions within a rescue inform the choice between reorganisation/BRiL/liquidation.

Based on this discussion, there were two factors concerning the crazy quilt principle that moderate the choice for reorganisation/BRiL/liquidation. These were stakeholder support and commitment (where effectuation is possible and reorganisation/rescue becomes a better choice to be pursued) and director negligence or fraud (where liquidation is opted for). Based on the findings above, this study therefore proposes the following:

Proposition 3: *High levels of stakeholder support and commitment increases the likelihood of practitioners choosing reorganisation over BriL and liquidation as a solution choice.*

7.5 THEME 4: THE RELATIONSHIP BETWEEN EFFECTUATION PRINCIPLES AND REASONABLE PROSPECT

The last research question of this study explored whether there exists a relationship between effectuation principles and RP. Figure 7.13 shows the principles of effectuation that have a relationship with RP. It is important to note that after considering all five principles of effectuation, the two principles (bird-in-hand and crazy quilt principle) had clear, strong relationships with RP; these will be explained in detail in this section. The sub-themes that emerged from the study findings are also discussed below.

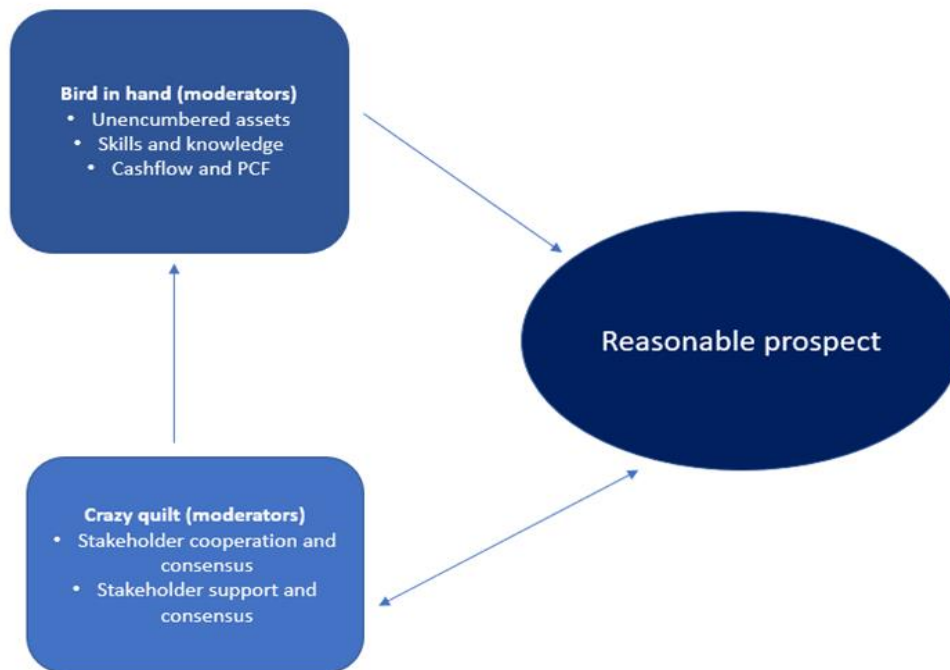


Figure 7.13: The relationship between effectuation principles and RP

7.5.1 Resources and reasonable prospect

The study findings showed that resources contributed to the existence of RP; without resources, a company had to be put into liquidation. Resources (means) contribute to solution determination and RP and are captured by the bird-in-hand principle which delineates that entrepreneurs start with a set of means (resources) that are currently controlled and utilise those means in achieving a broader range of prospective goals (Sarasvathy, 2001). In this instance, BRPs assessed the various means they had, such as the unencumbered assets and intangible assets (skills, knowledge and talents) which all flowed into RP. There was a clear relationship between resources and RP, therefore, the earlier a practitioner could begin the process – while a business still had resources - the better the chances of turning it around, which speaks to RP. Similarly, if there were no resources, then no RP exists unless the practitioner went out to find them, which refers back to BRP competence as a requirement in BR when evaluating a DVO.

In addition, BRPs mentioned the importance of having cash flow to run the business (runway). In the absence of cash flow, BRPs mentioned that PCF had to be available to

create runway, which meant the practitioner had room to work towards a solution. However, without the cash, the practitioner could not buy raw materials, pay suppliers or pay employees, amongst other issues. Practitioners cautioned that the market is not always open to fund distressed ventures and the lack of PCF may directly impact the assessment of RP, leaving the practitioner stranded. The difficulty in obtaining PCF supports the study by Pretorius and Du Preez (2013), who expound that when a venture becomes financially distressed or over-leveraged due to reasons that are beyond their control, obtaining PCF becomes progressively challenging and difficult if not impossible. In addition, BRPs also emphasised that it is important to have a champion for the rescue, people who will help drive and implement the BR.

Thus, without resources as discussed above, there may be no RP and the business may end up in liquidation. Practitioners advised that if a BRP doubts their RP due to a lack of resources, they must be competent enough to pursue additional resources when required - supporting Arend *et al.* (2015). BRPs need an entire pool of resources which are linked to RP. Moreover, RP is likely if BRPs possess the bird-in-hand and the potential to obtain additional resources. Based on the findings above, this study proposes the following:

Proposition 4: *Resource availability and the practitioner's ability to acquire additional resources for the distressed venture enhances reasonable prospect.*

7.5.2 Stakeholders and reasonable prospect

Based on the findings of this study, there exists a relationship between stakeholders and RP. The findings indicated that antagonistic stakeholders who were not cooperative moderated their RP; conversely, consensus amongst stakeholders enhanced their RP. Practitioners argued that Board in-fighting, poor relationships between stakeholders and criminality all made it difficult to turn the business around (no RP). Stakeholder cooperation and consensus was, therefore, an important moderator.

The findings also indicated that the collaborative efforts by banks, suppliers, management, shareholders, directors, and employees were important for the success of BR. When BRPs had RP, they could obtain support from creditors and get access to PCF (cash) and voter buy-in. In addition, when there was RP, suppliers could continue to support the business through raw materials or BR plan votes. Practitioners had to explain to creditors that RP exists, supporting the crazy quilt principle, which states that effectual logic puts more

emphasis on the cooperation of stakeholders to extend means and resources, reduce or divide uncertainty and obtain support for decision-making (Nguyen *et al.*, 2018:1058).

The relationship between RP and the crazy quilt principle therefore works in two ways (Figure 7.13). Firstly, when BRPs dealt with cooperative stakeholders (such as cooperative management), they reduced uncertainty in the distressed venture and enhanced their RP. Secondly, when BRPs presented their logic for the existence of RP, they obtained support from creditors (banks and suppliers), thus giving them the ability to extend the means within the distressed venture in the form of PCF or getting a supply of raw materials - which then made their RP even stronger. That said, in BR the crazy quilt principle influenced resources (bird-in-hand) often. Additionally, when BRPs had support from stakeholders (not just those with voting power), they could have BR plans approved, thus effectual logic was adopted. Without this support, the rescue would fail. Findings therefore indicated that stakeholder management is important, as per Trahms *et al.* (2013) who emphasise the importance of stakeholder management during BR to achieve a successful rescue. Thus, the fifth proposition of this study is found, namely:

Proposition 5: *Stakeholder collaboration, cooperation and consensus enhances reasonable prospect and the existence of RP enhances the ability to obtain stakeholder support.*

Lastly, figure 7.13 depicts that there exists a relationship between the bird in hand principle and the crazy quilt principle. As noted in chapter 7, the crazy quilt principle influence resources. The crazy quilt principle influences the vote as it is the stakeholders who have a voting power who have the power to vote on the plan and the crazy quilt influences the ability to obtain resources in the form of PCF and continued supply of raw materials from creditors (suppliers). Without the support of stakeholders (crazy quilt), practitioners will find it challenging if not impossible to obtain the required resources required to achieve their envisioned solutions. Thus, the last proposition of this study is found, namely:

Proposition 6: *The crazy quilt principle influences the bird in hand principle by enhancing the ability to secure required resources.*

7.6 CONCLUSION

This chapter discussed the main findings of the study, as presented in Chapter 6. The findings indicated that the principles of effectuation were relevant to the DVO. All five principles of effectuation, namely pilot-in-the-plane, bird-in-hand, affordable loss, crazy quilt and lemonade principles were all relevant to DVO decision-making. This study also discussed various factors that moderated the inclination towards effectuation and/or causation for each principle in practice. It showed that, in the industry, BRPs applied the principles and the moderators that informed their decisions. The study discussed various factors that informed the choice for reorganisation/BRiL/liquidation, which were linked to the bird-in-hand and the crazy quilt principle. Lastly, the study found that there exists a relationship between effectuation and RP, and it was noted that out of the five principles of effectuation, the bird-in-hand and the crazy quilt principles were the most critical and had a stronger relationship with RP. Based on the findings of the study, five propositions that could be explored by future research were provided.

CHAPTER 8: CONCLUSIONS

8.1 INTRODUCTION

The previous chapter discussed the findings of this study and the research propositions that were put forward based on the findings obtained. The study sought to understand whether the principles of effectuation are relevant to the distressed venture and if so, unpack whether practitioners were applying these principles in the industry. The main aim of this generic qualitative study was to investigate and explore the application of ‘effectuation theory’ to the DVO. This chapter, therefore, summarises the key findings of this study and discusses its theoretical implications. This is followed by a discussion of managerial recommendations for practice; thereafter, the limitations and the recommendations for further study are provided.

8.2 SUMMARY OF THE KEY FINDINGS

The study found evidence from the three groups of participants interviewed, namely the expert BRPs (split into TPs and BRPLLs) and the BRTs (novices) that showed support for the applicability of effectuation theory to the DVO. It is, however, important to note that this study focused mostly on expert BRPs’ perspectives. The findings indicated that both effectuation and causation were applied in a complementary manner where BRPs could navigate between the two logics when evaluating a DVO, although there were instances where participants leaned towards one logic more than the other. The study found that all principles of effectuation applied to the DVO, however, effectuation was used in a complementary manner with causal elements in some instances, depending on the context.

The study further found that when it comes to the pilot-in-the-plane principle, expert BRPs showed a strong inclination towards effectual logic. Various factors were found to moderate the inclination towards effectuation and/or causation with regards to this principle, namely:

- Assessment (investigation): Where expert BRPs focused on conducting an assessment which depends on the practitioner’s experience and competence.
- Data integrity/certainty: Due to uncertainties, such as data integrity, BRPs placed more emphasis on conducting an assessment to confirm the accuracy of the information presented to them.

- RP assessment: Conducting an RP assessment was found to be an important factor where expert BRPs understood this assessment to get a sense of whether RP exists or not in a distressed venture.
- Pre-assessment: With the pre-assessment being conducted, BRPs found no need to predict the solution of the venture.
- Chapter 6 of the Companies Act: Expert BRPs were flexible in determining their solutions and did not stick to one solution once visualised. BRPs were flexible in making changes to an unadopted plan, as Chapter 6 of the Companies Act does not allow them to make changes once they have been adopted.

With regards to the bird-in-hand principle, the study found that expert BRPs apply both effectuation and causation - although there was an inclination towards causation. Various factors were found to moderate the inclination towards effectuation and/or causation with regards to this principle, namely:

- RP assessment: Where expert BRPs conducted an assessment to get a better understanding of the available resources and additional future resources which may be required. Viability was sought through these assessments:
 - Strong RP: This made it easier to obtain additional resources and, in this regard, BRPs applied both logics, working with the available resources (effectual logic) and if required and depending on the solution, pursued additional resources (causal logic); or
 - Weak RP: BRPs were forced to only work with the resources at hand and only effectual logic was applied.
- BRP's competence and profile: In addition, depending on the solution to be pursued (goal-driven), BRPs may have let go of certain management who contributed to the demise of the company, thus they needed to bring in additional experts and consultants to assist - in such instances, a causal approach was applied.

The affordable loss principle was also found to be relevant to the DVO and while expert BRPs applied both causation and effectuation, there was an inclination towards causation. These factors were found to moderate the inclination towards effectuation and/or causation with regards to this principle, namely:

- BRP optimism: The more optimistic the practitioner, the more upbeat they were about their proposal and focus was placed on the upsides (best-case scenario) of saving the distressed venture rather than curbing the downside potential.
- Risk: Expert BRPs understood the level of risk involved in a rescue and as such applied effectual logic, focusing on mitigating the various risks within the venture.
- Chapter 6 of the Companies Act: Chapter 6 of the Companies Act influenced BRPs to apply effectuation, as practitioners were obligated by the Companies Act to limit the risks and losses to achieve a better return for creditors than in immediate liquidation.
- BRP fees: Where expert BRPs understood that should the rescue fail their fees may not be paid and their reputation may also be on the line due to this, BRPs applied effectuation to manage the risks and curb the downside potential.

With regards to the crazy quilt principle, the study found that various factors moderated the inclination for effectuation and/or causation and in practice, expert BRPs slightly leaned towards effectuation when it comes to this principle. The following moderators were identified:

- Chapter 6 of the Companies Act: Where the Companies Act obligated practitioners to balance the rights of all stakeholders and as such, effectual BRPs understood that in the process, they had to involve everyone regardless of whether they had voting powers.
- Stakeholder salience: BRPs grasped the importance of prioritising stakeholders with voting power to solicit buy-in and ensure votes for the BR plan. Considering this, expert BRPs who applied effectual logic preferred the use of a creditors committee to obtain support and buy-in from creditors with voting power before the publication of the plan.
- BRP collaboration competence: expert BRPs applied effectual logic and possessed collaboration competence; through it, partnerships were formed and a competent practitioner engaged with all parties involved to share the risks and benefits of the distressed venture.

The lemonade principle was also found to be relevant to the DVO. While expert BRPs applied both effectuation and causation to this principle, there was a slight inclination towards effectuation in practice. These two moderators were found to moderate the inclination towards effectuation and/or causation with regards to this principle, namely:

- Chapter 6 of the Companies Act: Where the Companies Act limited practitioners in applying extended effectual thinking, as BRPs were not allowed to change a plan once adopted. Any changes had to be communicated to stakeholders and a new plan was sought and voted upon.
- Elastic thinking: Where expert BRPs understood that circumstances change. As such, they had to be adaptable and flexible in the process.

The main research question of this study is- *Are principles of effectuation relevant to the DVO decision making?* And this question was answered by the secondary research questions which will be briefly discussed below. With regards to Research Question 1 (first secondary question - *What principles of effectuation are relevant to the DVO*), the study found that all five principles of effectuation and some elements of causation could be confirmed as relevant to the DVO decision-making. This was stated in Research Proposition 1 in Section 7.2.5; thus, effectuation was used in a complementary manner with causal elements and expert BRPs could navigate between the two logics in some instances depending on the context.

In answering Research Question 2 (second secondary question - *Are practitioners applying any of the effectuation principles in the industry? and If so, are they doing it deliberately/unknowingly/otherwise?*), the study found that contrary to what expert BRPs do concerning pilot-in-the-plane, the perception in the industry was that there was more of a lean towards causal thinking. It was found that experience and competence were important moderators in the industry, where competent and experienced practitioners invested their time in investigations whereas incompetent practitioners walked into a venture with a pre-conceived idea of what the solution should be. Practitioners were not convinced of other practitioners' level of education, background or knowledge, claiming this often led to a BRiL or liquidation instead of a reorganisation, resulting in the low BR success rate. It was also found that some BRPs in the industry tended to pursue BRP fees rather than addressing matters, alongside the pressures of publishing a report within a short time frame (as per the Companies Act), thus limiting BRPs' application of extended effectual thinking.

Again, contrary to what expert BRPs do with regards to the bird-in-hand, it was found that BRPs in the industry showed a leaning towards effectual logic, where the focus was placed on using available means instead of applying both logics in a complementary manner (navigating between the two logics) by conducting pre- and RP assessments and thereafter pursuing additional resources when required. RP was mentioned as an important factor that should be used so that practitioners get a better view of what resources are available and additional resources that would be required which is currently lacking in the industry. It was found that in the industry, there appears a lack of BRP competence and knowledge to use available resources (effectual approach) or pursue additional resources depending on the solution (causal approach).

With regards to the affordable loss principle, the perception was that in the industry, practitioners leaned towards applying both effectuation and causation - where the focus was on the upsides of saving the distressed venture, assessing the level of risk and curbing the downside potential. Lastly, regarding the perception of the application of the crazy quilt principle in the industry, BRPs leaned towards effectual logic, although much preference was on stakeholders with voting power (BRPs who apply effectual logic understood that the creditors' buy-in and support was imperative). Thus, stakeholder participation and buy-in was identified as an important moderator.

For the lemonade principle, it was found that in the industry, BRPs leaned towards effectuation where adaptability was an important factor, similar to what expert BRPs did in practice. BRPs who applied effectual logic in the industry understood that circumstances change and when the plan has not been adopted yet, they were adaptable and flexible. Thus, they applied effectual logic to accommodate the dynamic nature of the BR space.

The findings associated with Research Question 3 (third secondary question - *whether effectuation principles could inform the choice for reorganisation/BRiL/liquidation*) highlighted that some principles of effectuation (bird-in-hand and crazy quilt) could indeed inform the choice for reorganisation/BRiL/liquidation. It was found that RP and the availability of resources (tacit assets, PCF, cashflow - which alluded to the bird-in-hand) and seeking additional resources when required, helped inform expert BRPs on the choice for reorganisation/BRiL/liquidation. For example, when sufficient resources existed and assets exceeded liabilities, reorganisation was chosen; however, with insufficient resources and no RP, BRiL/liquidation became the proposed solution. This was determined through the RP

assessment, which included some elements of effectuation by using the available means (effectual approach). In this regard, the higher the quality of reasonable prospect and the higher the level of resources the more inclined practitioners are to choose reorganisation, as highlighted in Research Proposition 2 in Section 7.4.1.1.

Similarly, the more commitment and buy-in from various stakeholders, the more effectuation was possible and reorganisation/rescue was the better option, whereas when there has been director negligence or fraud, liquidation was opted for. The study therefore proposed that high levels of stakeholder support and commitment increases the likelihood of practitioners choosing reorganisation over BRiL and liquidation as a solution choice, as highlighted in Research Proposition 3 in Section 7.4.2.

With regards to the last research question (the fourth secondary question - *Is there a relationship between effectuation principles and RP?*) the study found that out of five principles of effectuation which are all applicable to the DVO, the bird-in-hand and the crazy quilt principle were the most critical as they had a clear, strong relationship with RP. The study found that resource availability and the practitioner's ability to acquire additional resources for the distressed venture enhanced RP, as stated in Research Proposition 4 in Section 7.5.1. The study also found that stakeholder collaboration, cooperation and consensus enhances reasonable prospect and the existence of RP enhances the ability to obtain stakeholder support as stated in Research Proposition 5 in Section 7.5.2. Lastly, the study finds that there exists a relationship between the crazy quilt principle and the bird in hand principle and thus the Research Proposition 6 with states that the crazy quilt principle influences the bird in hand principle by enhancing the ability to secure required resources.

8.3 THEORETICAL IMPLICATIONS FOR WIDER LITERATURE

This study contributed to the extension of effectuation and causation from a distressed venture perspective. It has also contributed to the theory of effectuation itself as it is currently conceptualised, thus providing an avenue for further studies to be conducted. Moreover, it was the first time that the theory of effectuation was extended from the entrepreneurship domain to the distressed venture environment, specifically in BR when evaluating a DVO. This study contributed to the limited knowledge of how BRPs judge RP, as previous research was scant. The study, therefore, contributed to how effectuation and its principles are and can be used to inform RP and viability in solution determination.

Based on the literature and empirical findings of the study, effectuation applies to the DVO as judged by RP. The findings showed that BRPs used effectuation in their decision-making in all five dimensions, namely the bird-in-hand, pilot-in-the-plane, affordable loss, crazy quilt and lemonade principles. Additionally, there were elements of causation applicable in the process. Effectuation was, therefore, used in a complementary manner with causal elements and BRPs navigated between both logics in some instances depending on the specific context. Based on the study findings, it was clear that when it comes to DVO decision-making, both effectuation and causation strategies may co-exist. Sarasvathy (2001) and Fisher (2012) argue that both logics can be used depending on the circumstances and an entrepreneur can navigate between the two logics and evidence from this study supported this argument. This study found that, although effectuation and causation are two different thinking approaches, they were not mutually exclusive. When evaluating a DVO, BRPs could apply both logics depending on context. For example, using available means to arrive at a solution (means-driven effectual logic) or, if resources are insufficient or not available, the solution determines the resources to be pursued and, in this case, resources were pursued to achieve the envisioned solution (goal-driven causal logic).

Moreover, this study added to the theory of effectuation by highlighting that in determining the solution to be pursued, BRPs may have a “gut feel” (an envisioned solution) which may imply that they could somewhat predict the outcomes of the actions. Although BRPs may have had an envisioned solution, they understood the importance of an investigation (assessment) to support their solution choice and the logic for their RP. Gut feeling was therefore an important aspect to consider when evaluating a DVO and must be explored further by future research in terms of whether it is regarded as effectual or causal thinking. The principle of affordable loss also included assessing the upsides (the best-case scenario) - saving the distressed venture - this reflects an additional aspect and option of how BRPs thought about and applied the affordable loss principle over and above curbing the downside potential and leveraging contingencies. The concentration on the upsides and the best-case scenario are new elements supported by Arend *et al.* (2015) that may have been overlooked in the theory and applicable in DVO decision-making. This study found, that in practice, BRPs focused on the upsides as well as curbing the downside potential, which were both equally important. It was not an either/or situation where BRPs chose between applying

effectual or causal logic but rather they struck a balance by applying the two logics in a complementary manner to achieve the best solution for the distressed venture.

This study contributed to the literature by having chosen distressed venture environments in BR as a field to conduct the research. The BR space is unique and the environment has complexities and uncertainties that make effectuation a useful lens for the evaluation of a DVO. This study showed an appreciation of effectuation theory and thus contrasted it with causation to understand whether the participants used effectuation or causation. Although three different groups or participants, namely expert BRPs (TPs and BRPLLs) and BRTs' perspectives were compared, more similarities than differences were found that contributed to the applicability of effectuation theory from a distressed venture perspective. This lack of differences stemmed from BRTs working closely with experts in the industry who inform them on how to make decisions, thus they take the same approaches. While the three groups of participants were used in this study, the main focus was on expert BRPs. Table 8.1 below provides a summary of how the theory of effectuation was extended and this is built on the similarities and unique elements of a DVO compared to that of an NVO which would be of benefit for future research scholars to investigate further.

Table 8.1: A summary of effectuation theory extended based on similarities and unique elements of a DVO compared to that of an NVO

Effectuation principles	NVO and DVO similarities	Unique elements in a DVO	Factors moderating the leaning towards effectuation and/or causation in a DVO
Pilot in the place	<p>-Non-predictive: The future is shaped and molded through investigations and practitioners do not predict the solution.</p>	<p>-Predictive: During the first meeting with management, practitioners may envision the solution “Gut feel” (causation) which is confirmed or refuted by the information on the ground.</p>	<ul style="list-style-type: none"> -Assessment/investigation -BRP competence or profile -Data integrity/certainty -Pre-assessment -Reasonable prospect - Chapter 6 of the Companies Act
Bird in hand	<p>-Means oriented: Practitioners assess available means which are currently controlled (PCF, working capital, assets, skills, and investments etc.).</p>	<p>-Goal oriented pursuit of resources (causation): Depending on the solution to be pursued, practitioners pursue additional resources when required (causation).</p> <p>-Contrary to new venture settings, where the entrepreneur uses available means such as who the entrepreneur is, what they know and who they know, in distressed venture settings, the BRP assesses the available resources as mentioned in the similarities section.</p>	<ul style="list-style-type: none"> -Assessment -Reasonable prospect -Employee/management skills and competencies -BRP competence or profile
Crazy Quilt	<p>Partnerships: Stakeholder and creditor involvement as well as collaborative partnerships are crucial during business rescue. Expert BRPs involve everyone in the decision-making process</p> <ul style="list-style-type: none"> - including the employees, potential funders, suppliers, creditors, customers and any 	<p>Stakeholders involved in BR are more formal and some of these stakeholders are somewhat associated with the distressed venture. This is different from new venture settings, where stakeholders are drawn from less formal connections such as friendships, acquaintances and other personal networks.</p>	<ul style="list-style-type: none"> -Chapter 6 of the Companies Act -Stakeholder salience -Buy-in and stakeholder participation -BRP collaboration competence

	other critical players who would contribute to the solution.		
Affordable loss	<p>-Affordable loss: Practitioners focus on curbing the worst-case scenario and curbing the downside potential as well as managing risk during business rescue. This entailed applying a bottom-up approach of examining the worst-case scenario and building from there.</p>	<p>-Leveraging the upsides: expert BRPs focus on gains (upsides) and the best-case scenario (causation) which entails saving the business, saving jobs, maximising returns for shareholders and creditors, implementing their solutions and ultimately achieving a BRiL as guide by the Chapter 6 of the Companies Act.</p> <p>-Expected returns: In business rescue, practitioners focus on the upsides of saving the business and maximising returns for the creditors (causal approach).</p> <p>- Affordable loss thinking in the business rescue environment is different from new venture settings, where the entrepreneur is the one who engages in affordable loss thinking. In business rescue, it is the key stakeholders that are affected by affordable loss thinking.</p>	<p>-BRP optimism</p> <p>-Risk</p> <p>-Chapter 6 of the Companies Act</p> <p>-BRP competence</p> <p>-Reputation</p> <p>-BRP fees</p>
Lemonade	<p>-Leveraging contingencies: In business rescue, practitioners are flexible and adaptable to changing circumstances and new information anytime when the BR plan is under development stage.</p>	<p>-Rigidity: There are times when practitioners are found to be rigid and not flexible to changing circumstance when the plan has already been adapted. The reason for this is that practitioners are obligated by the Companies Act to stick with an adopted plan and make sure to implement it as is (causation)</p>	<p>-Chapter 6 of the Act</p> <p>-Elastic thinking</p>

8.4 MANAGERIAL RECOMMENDATIONS

Findings from this study hold several practical benefits/contributions. They are discussed below.

8.4.1 Benefits to business rescue practitioners

Effectuation is applied by experts to entrepreneurial opportunities and it has proven to be useful in uncertain and resource-restricted environments, similar to distressed venture environments. Therefore, to achieve success, it was established from the study findings that the use and/or application of effectuation and its elements contrasted with that of causation provides a useful lens for BRPs to cope with uncertainties and resource constraints when dealing with distressed ventures and more specifically evaluating the DVO.

Through the use of effectuation and its principles, practitioners can employ/develop successful entrepreneurial thinking that is needed to reorganise distressed ventures. By taking an effectual approach supplemented with elements of causation, BRPs can work to build resilience in their strategies, be creative in adapting to solutions as they arise and engage with stakeholders in the process of turning distressed ventures around. By applying effectuation and some elements of causation, practitioners can make an assessment, focus on what is available, pursue what is required, co-create their solution with various stakeholders within the distressed venture, embrace uncertainty and adapt to changing circumstances - which may foster growth and innovation in distressed ventures.

From the findings, it was noted that the BR space is faced with practitioners who may lack the turnaround experience and knowledge required to conduct a successful rescue. The use of effectuation and causal elements may, therefore, assist practitioners in understanding what is required to turn around a distressed venture and help avoid some pitfalls. The insights of this study can shed new light and new thinking on what is required, including applying the principles of effectuation to the DVO to arrive at successful solutions. In this regard, the findings of this study highlighted the importance of i) conducting an RP assessment; ii) pre-assessments; iii) investigating; iv) adopting elastic thinking; v) being optimistic in the process; vi) managing risk; vii) adhering to the requirements stipulated by the Companies Act, viii) involving stakeholders in the process and ix) understanding the importance of stakeholder salience and its role amongst other factors identified which are important in a rescue. Using effectuation in a complementary manner with causal elements

therefore serves as a useful construct for BRPs to follow when rescuing distressed ventures, providing an escape from the Zol and creating an avenue for distressed ventures to operate on a solvent basis once again. With new entrepreneurial thinking employed, practitioners may benefit from a success rate in the number of companies coming out of distress (reorganised) and consequently, a reduction in the number of distressed ventures ending in up liquidation - which would then attest to the competency of practitioners in the industry.

Scholars have also reported that in the BR industry, there exists no broadly accepted tool/benchmark to determine RP (Janse van Rensburg, 2016:8; McDonald, 2017:3). That said, the application of effectuation and its associated principles supplemented by the use of causal elements may serve as a benchmark which could inform the choice of reorganisation/BRIL/liquidation. The study findings showed that there exists a relationship between effectuation and RP; therefore, the application of effectuation and its elements may enhance factual RP determination across various observers, such as BRPs and TPs. BRPs must understand that if they believe RP exists, they must have a high-level scenario plan and some financial numbers to back up their solutions/positions. If they do not have the resources to make a distressed venture work (bird-in-hand) and they do not have support from stakeholders (crazy quilt) then they do not have RP. In essence, practitioners may learn and benefit from using effectuation and causation elements depending on the specified context to establish viability as part of RP.

8.4.2 Benefits to business rescue trainees

The results of this study may provide BRTs with an understanding of the nature of the uncertainties faced in the BR industry and the associated decision-making which may serve as preparation for entering the BR space. The use of effectuation with some elements of causation will enable BRTs to learn and improve their knowledge of what informs the decision of whether a distressed venture can be reorganised. The use of effectuation and causation may present an opportunity for BRTs to understand the approaches in addressing uncertainties and applying effectuation principles supplemented by the use of causal elements in BR decision-making, forming the basis through which BRTs may contribute to future success in the industry.

8.5 LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

This study had several limitations. Firstly, this study mainly focused on the perspective of expert BRPs who also work as TPs, supplemented by a perspective from BRPLLs and that of BRTs, which may not be complete. Future research can include other decision-makers such as creditors who are most affected by the outcome of BR and also make decisions on how much money to invest and decide to vote on the BR plan.

Secondly, the research instrument may have only covered a subset of the problem-solving approaches used in BR and participants may have been limited to choosing between the two statements that were provided, which could have limited their responses in turn. These may have caused gaps and changes in direction to understand whether participants leaned towards effectual or causal thinking. Furthermore, asking practitioners for their opinion regarding how they think other people are doing things in the industry may have created some bias as their judgement may not have been a true reflection of what is truly happening in the industry.

Thirdly, the study's sample size may also be limited due to the difficulty experienced by the researcher in obtaining people who met the sample criteria (expert BRPs who also work as TPs and BRPLLs). Initially, the researcher aimed to include a sample of BRPs only from a liquidation background but due to the difficulties in obtaining the sample, the researcher added BRPs from a legal background to the mix (attorneys). Additionally, the time-consuming nature of the data collection process and the data coding process also set some practical considerations. Future research may benefit from interviewing a larger pool of participants and BRPs from other backgrounds compared with novices in the industry.

Fourthly, this study was qualitative in nature and future research could benefit from a quantitative methodology study, specifically exploring the kind of relationship that exists between effectuation and RP and if there exists a relationship between effectuation and the other principles of effectuation. Although the study explored the relationship between RP and all the principles of effectuation, the study found that the bird-in-hand principle and the crazy quilt principle are considered critical and have a strong relationship with RP. Future research can benefit from exploring the nature of the relationship that exists between RP and the other principles of effectuation in more depth, if there are any relations, with a quantitative methodology applied.

Fifthly, the use of BRTs who have limited BR experience but work alongside BRPs and have learnt from them by observing what they do could be seen as a limitation. Although it could be argued that these participants do not yet make decisions in BR given that they are not yet registered as BRPs, their perspective was helpful in the study to supplement the main perspective obtained from the expert BRPs. The use of novice participants in expert studies is commonly used, especially where effectuation theory is concerned, and the aim of using the BRTs was to uncover whether their decision-making logic would be different from that of experts in the industry. This study, however, discovered that their perspective is not so different - as BRTs also use effectual logic supplemented with causal logic. The reason for this could be the close proximity with which BRTs work to BRPs.

Lastly, this study was limited to the BR regime in South Africa, which may present an opportunity for future studies to conduct a replication of the study in other contexts to extend the generalisability of the results. An interesting avenue would be to see whether effectuation would be applicable in other turnaround regimes in other developing countries like South Africa. Future studies can also explore whether the use of effectuation and causation differs when a venture is in an informal turnaround stage than in the formal BR regime. Such studies could also investigate the impact of effectuation on businesses experiencing early signs of financial distress and these would be businesses that have not yet applied to be in BR. The main aim would be to understand the impact of effectuation on these venture's performance and thus answer the question, "So what?". If the use of effectuation in ventures experiencing early signs of distress has a positive impact on the performance of the ventures, then effectuation and its use may be justified. Although the qualitative nature of this study assisted in understanding the applicability of effectuation to the DVO, a quantitative study will greatly enhance the interpretation of the findings by testing and confirming the theory used in this study and the propositions made based on the findings. In addition, future studies could benefit from the use of the propositions and explore them in future research. These are highlighted below and provide guidance for future research in more detail:

Proposition 1: *All five principles of effectuation (and some causal elements) can be confirmed to be relevant to the distressed venture opportunity decision-making. While all principles of effectuation were applicable to the DVO, it is important to note that some causal elements were also applicable that played a positive role on the RP decision making. Future*

research can conduct a comparison study to examine the application of effectuation principles and causal elements in a business rescue setting context vs an informal turnaround setting to determine if there are any similarities or differences in the application of these principles and/or elements.

Proposition 2: *The higher the quality of reasonable prospect and the higher the level of resources the more inclined practitioners are to choose reorganisation.* This proposition confirms the relevance of the resource-based view theory in both new venture and especially distressed venture opportunities. Future research can quantitatively investigate the relationship between the quality of RP, the quality of the resources required and the likelihood of reorganisation as a solution choice. In addition, resources are acknowledged as a key contributing factor during BR and although the levels of more and less have not been clarified by the participants and remains vague, future investigation is required to quantify the level resources in RP decision making.

Proposition 3: *High levels of stakeholder support and commitment increases the likelihood of practitioners choosing reorganisation over BRiL and liquidation as a solution choice.* This proposition highlights the importance of stakeholder support and commitment which influences the solution choice and thus future research should further investigate the type of support offered by various stakeholders and the role and/or impact of stakeholder support and commitment in distressed venture decision making.

Proposition 4: *Resource availability and the practitioner's ability to acquire additional resources for the distressed venture enhances reasonable prospect.* BRP competence and the availability of resources is crucial in DVO decision making. Future research can explore the acquisition of additional resources required in distressed ventures, exploring the various funding strategies, non-financial resources as well as the practitioner's skills and capabilities to seek such resources during BR.

Proposition 5: *Stakeholder collaboration, cooperation and consensus enhances reasonable prospect and the existence of RP enhances the ability to obtain stakeholder support.* Future research should further explore how this bi-directional relationship enhances RP from a quantitative perspective. In addition, future research should investigate how consensus is achieved among stakeholders, including negotiation tactics as well as conflict resolution strategies employed.

Proposition 6: *The crazy quilt principle influences the bird in hand principle by enhancing the ability to secure necessary resources.* Future research may benefit from conducting a quantitative study that tests and explores the type of relationship that exists between the crazy quilt principle and the bird in hand principle.

8.6 CONCLUSION

The research aimed to explore and better understand the application of effectuation to the DVO with the main research question addressing whether effectuation principles are relevant to the DVO. The interviewer interviewed expert BRPs (TPs and BRPLLs) and BRTs. The findings showed that both effectuation and causation are applied in a complementary manner and practitioners could navigate between the two logics depending on the specific context. As such, this study showed support for all five principles of effectuation which are relevant to the DVO. The study also found that effectuation was applicable in the industry based on participants' perceptions and effectuation principles could inform the choice for reorganisation/BRiL/liquidation. Lastly, the study found that, of the five principles of effectuation which were all applicable to the DVO, the bird-in-hand and the crazy quilt principle were the most critical principles that had a clear, strong relationship with RP.

Although there were limitations to this study, evidence showed that when the principles of effectuation and causation were understood and applied in a complementary manner when required and depending on the context, they could inform BRPs to establish viability as part of RP when dealing with distressed ventures. The main purpose of this study, which was to understand whether the principles of effectuation are relevant to the DVO, was therefore achieved.

9. LIST OF REFERENCES

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APPENDICES

APPENDIX A: TURNITIN ORIGINALITY REPORT

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**INVESTIGATING EFFECTUATION THEORY APPLICATION IN PRACTICE
WHEN EVALUATING A DISTRESSED VENTURE OPPORTUNITY**

By
Ms. Thabang Madigoe

Submitted in partial fulfilment of the requirements for the degree
PhD in Business Management
Option: Strategic Management

in the

FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES

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APPENDIX B: INFORMED CONSENT FORM AND DISCUSSION GUIDE



Faculty of Economic and Management Sciences

Combined Letter of Introduction and Informed Consent

Department of Business Management

Investigating effectuation theory application in practice when evaluating a distressed venture opportunity

Research conducted by:

Ms T Madigoe, u12327809, 082 5952858

Dear Participant

You are invited to participate in an academic research study conducted by Thabang Madigoe, a Doctoral student from the Department of Business Management at the University of Pretoria.

The purpose of the study is to investigate and explore the application of 'effectuation theory' to the distressed venture opportunity.

Please note the following:

- This is an anonymous study and your personal information will not appear on any transcript. The responses you give will be treated as strictly confidential as you cannot be identified in person based on the answers you give.
- Your participation in this study is very important to us. You may, however, choose not to participate and you may also stop participating at any time without any negative consequences.
- I understand that all data collected for this study will be stored on a safe and secure platform as governed by the University of Pretoria's Research Data Management Policy.
- Please answer the questions in the attached questionnaire and interview as completely and honestly as possible. This should not take more than 60 minutes of your time. The results of the study will be used for academic purposes only and may be published in an academic journal. We will provide you with a summary of our findings on request.
- Please contact my study leader, Prof Marius Pretorius, 012 420 3394, marius.pretorius@up.ac.za if you have any questions or comments regarding the study.

In research of this nature the study leader may wish to contact respondents to verify the authenticity of data gathered by the researcher. It is understood that any personal contact details that you may provide will be used only for this purpose, and will not compromise your anonymity or the confidentiality of your participation.

Please sign the form to indicate that:

- You have read and understand the information provided above.
- You give your consent to participate in the study on a voluntary basis.

Participant's signature

Date

INTRODUCTION

Thank you for taking the time to meet with me and being willing to participate in my study. My name is Thabang Madigoe, a PhD in Business Management student at the University of Pretoria. The purpose of my study is to investigate and explore the application of 'effectuation theory' to the distressed venture opportunity. Effectuation is a decision-making logic used by expert entrepreneurs in uncertain and resource restricted market environments to inform their decision making when pursuing an entrepreneurial opportunity. This study therefore aims to determine whether the same or its elements can be applied to the DVO to inform practitioners (BRPs and TPs) for better decision making when making the RP judgement. I have therefore asked you to participate in my study, as I believe you will be able to provide me with in-depth and valuable information needed for my study and to learn more from your expertise and professional experience.

This interview is estimated to last for roughly 90 minutes and you can be assured that this interview will be treated with utmost confidentiality. Your name will not be mentioned when reporting the findings of the study and the information provided will be handled with complete anonymity. Your participation in the interview is voluntary and as result, you have the right to refuse to answer any questions you are uncomfortable with and you are free to withdraw from the interview at any point in time.

In order to accurately document the information provided, aid data analysis and to allow me to later transcribe the data provided, I kindly request your permission to tape-record this interview. This recording will be treated with confidentiality and will not be shared with any other parties. Before we can begin with the interview, may you please kindly sign the consent for me? Signing consent form serves as verification that you understand the nature and purpose of this interview.

Before we can proceed with this interview, I would like to explain that we have two research instruments with questions that we will complete and these will form a basis to our interview. We are going to start with research instrument and thereafter the second one and explain how they work.

Do you have any questions or concerns before we proceed? Shall we begin with the interview?

MAIN QUESTIONS

Research instrument A and B were explained and completed to solicit the responses required. The wrap up questions from the discussion guide are laid out below and as highlighted above, these questions were phrased differently for BRP trainees:

6. On what basis do you make the decision to pursue either reorganisation/BRiL/liquidation?
7. What aspects do you look at specifically to support your choice for a reorganisation?
8. What about BRiL and liquidation? Are there any specific areas that you mostly focus it comes choosing these solutions?
9. Based on what you have just explained to me, do you think there exists a relationship between resources (available resources, endowed and future resources) and RP?

10. In your experience, do you think there is a relationship between various stakeholders and RP?

Conclusion

We have now reached the end of the interview for today. Do you think there are any crucial topics or information that you would like to add regarding the evaluation RP of that I may have not covered earlier?

Are there any business rescue practitioners/ that you could refer me to?

Thank you once again for taking your time in participating in the interview. I have learnt a lot from our discussion today and I am looking forward to analysing the information obtained from this interview.

APPENDIX C: RESEARCH INSTRUMENT A

Do We have a Business still – An evaluation of a distressed venture opportunity

Consider that you are faced with a distressed venture (Is there an opportunity or not?).

Below are some statements. First, choose the statement (Statement 1 or 2) that you rather support and then determine the strength of your agreement. Once you have selected your statement, qualify your selection by providing a reason. There is only one score per question on the six-point scale. The **“solution”** is the envisioned outcome in the form of reorganisation, Better return than in liquidation (BRiL) or Liquidation.

	Agreement strength						
	Strong	Weak			Weak	Strong	
Statement 1	1 Strongly Agree	2 Agree	3 Slightly Agree	4 Slightly Agree	5 Agree	6 Strongly Agree	Statement 2

BRPs usually have a solution for a distressed venture. If you are asked to assist in a troubled business, how do you determine the solution for the distressed venture?

	Statement	Or	Statement	Item	V
1	I have an idea of the solution for the distressed business from the first meeting with the management.	1 2 3 4 5 6	I will see what is possible with the distressed venture when I start with the investigation.	1	1
2	The solution in terms of (reorganisation, liquidation or BRiL) is clear and consistent on where one could end up with the distressed venture.	1 2 3 4 5 6	It is not possible to see from the beginning where the distressed venture would end up, in terms of (reorganisation, liquidation or BRiL).	2	1
3	I can predict what outcome of the venture will be (reorganisation, BRiL or liquidation) right from the beginning.	1 2 3 4 5 6	There is no need to predict whether reorganisation, BRiL or liquidation will ensue until I am somewhat close to the distressed venture.	3	1

4	Once I visualise the solution, I remain with pursuing it.	1	2	3	4	5	6	The solution may change along the BR process.	4		1

Score	/4 =
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During business rescue, resources (available, endowed and future) are an important consideration to determine the existence of an opportunity. How do you make decisions regarding resource requirements and competencies within the distressed venture?

	Statement	Or	Statement	Item	V						
5	Once I have visualised the solution, I will pursue the resource requirements.	1	2	3	4	5	6	The resource requirements determine what solution I will pursue.	5		1
6	The solution I choose determines the existing key management and expert competencies to remain in the venture.	1	2	3	4	5	6	The existing key management and expert competencies in the venture will determine the solution for the venture.	7		1
7	I take on any BR matter regardless of whether or not there are PCF providers available.	1	2	3	4	5	6	I take on a BR matter on the basis that there are PCF providers available to provide the funding.	8		1
8	The solution will determine the PCF required.	1	2	3	4	5	6	The PCF that can be obtained/acquired will determine the solution to be pursued.	9		1

Score	/4 =
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The BR process is cumbersome and requires critical decision making. What informs your decisions during the BR process as far as best-case scenarios and worst-case scenarios are concerned?

	Statement	Or						Statement	Item	V
9	I work towards the best-case scenario and determine how it can be achieved.	1	2	3	4	5	6	I examine the worst-case scenario and work from there.	10	1
10	My decisions are driven by what can be gained by the envisioned solution.	1	2	3	4	5	6	My decisions are driven by what I can afford to lose.	11	1
11	I examine the potential gains that can be derived from saving the distressed venture.	1	2	3	4	5	6	I examine the maximum potential losses that can be reduced/minimised in order to achieve the envisioned solution for the distressed venture.	12	1
12	I pursue the required resources even in a risky situation in order to achieve the envisioned solution.	1	2	3	4	5	6	I generally do not risk more money than we are willing to lose in pursuing the envisioned solution.	13	1

Score	/4 =
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Stakeholders are an important consideration during the BR process. In your experience, who are the most important stakeholders you need to achieve the envisioned solution for the distressed venture?

	Statement	Or						Statement	Item	V
13	Stakeholders that have the key voting power are the only “real” stakeholder to consider.	1	2	3	4	5	6	All stakeholders regardless of voting power should be considered in the decision making.	14	1
14	I focus on planning and doing my research to identify certain stakeholders that will assist me in achieving the solution chosen.	1	2	3	4	5	6	I interact with various people who were involved in the venture and those who are potential partners, willing to share the risks and benefits within the distressed venture.	15	1

15	I propose (in BR plan) the solution and seek support from stakeholders.	1	2	3	4	5	6	I interact with various stakeholders to determine a possible solution and compile the BR plan.	16		1
16	I dislike the use of the creditors committee.	1	2	3	4	5	6	I prefer the creditors committee to participate.	17		1

Score	/4 =
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Things change during the BR process and new information concerning the distressed venture might emerge. How do you deal with changing circumstances during the BR process?

	Statement	Or						Statement	Item		V
17	Once the plan has been accepted, I implement/pursue the relevant strategies.	1	2	3	4	5	6	I am open to changing circumstances in implementing my strategies	18		1
18	Once a business rescue plan has been developed, I stick to that plan and allow no room to adapt the plan.	1	2	3	4	5	6	Once a business rescue plan has been developed, I adapt the plan when new information emerges	19		1
19	I am aware that the non-adoption of the BR plan may likely occur and I come up with a plan to overcome such a situation.	1	2	3	4	5	6	I learn as I go and when a situation such as the non-adoption of a BR plan occur, I use that as an opportunity to amend the plan and strategies.	20		1
20	I enforce strategies irrelevant to the resource availability and requirements.	1	2	3	4	5	6	I adapt the strategies to the resource availability and requirements.	21		1

Score	/4 =
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APPENDIX D: RESEARCH INSTRUMENT B

Participants were asked to provide their view regarding how things are done in the industry and based on the statements provided, they were required to choose one statement they resonate with and thereafter qualify their statements by providing a reason for the statement selected.

BRPs usually have a proposed solution for a distressed venture in the form of reorganisation, BRiL or liquidation. Please tell me about your general perception of BRPs in the industry. When do you think they decide on the proposed solution for the distressed venture?

BRPs in the industry have an idea of the solution for the distressed business from the first meeting with the management.

OR

BRPs in the industry decide on the solution after they have started with their investigation. The decision is only made later on in the BR process.

1. Do you think they do this deliberately or they don't think about it and that's how they do it?

3

In distressed environments, BRPs are faced with an uncertain and resource restricted environment. As a result, during the BR process, BRPs have to consider resources (available, endowed and future) in order to make a judgement on the existence of an opportunity. Please tell me the general perception in the industry on how other BRPs approach the resource situation.

BRPs in the industry allow resource requirements to determine the solution (reorganisation, BRiL, or Liquidation) to be pursued.

OR

Once BRPs in the industry have visualised the solution (reorganisation, BRiL, or Liquidation), only then will they pursue the resource requirements.

1. Do you think they do this deliberately or they don't think about it and that's how they do it?

In business rescue, relationship building and consideration of various stakeholder interests are important to achieve the envisioned solution. In your experience, who do BRPs in the industry consider as the most important?

BRPs in the industry regard stakeholders that have the key voting power as the only "real" stakeholder to consider.

OR

BRPs in the industry regard all stakeholders regardless of voting power as important to be considered in the decision making.

1. Do you think they do this deliberately or they don't think about it and that's how they do it?

When operating in distressed ventures, BRPs need to have control over risks, reduce risks associated with overspending and minimise potential losses within the distressed venture. In your view, how do you think BRPs in the industry approach the concept of achieving the envisioned solution and navigating risks within the distressed venture?

BRP decisions are driven by what can be gained by the envisioned solution.

OR

BRP decisions are driven by what can be affordably lost in the venture.

1. Do you think they do this deliberately or they don't think about it and that's how they do it?

During the BR process, BRPs cope with what comes their way and at times they usually have to learn to transform negative contingencies into opportunities. In your view, what is your general perception regarding the development of the BR plan by BRPs in the industry.

Once BRPs have developed a BR plan, they stick to that plan.

OR

BRPs adapt the BR plan continuously as new information emerges.

1. Do you think they do this deliberately or they don't think about it and that's how they do it?

APPENDIX E: TABLE LINKING CODES, SUB-THEMES AND MAIN THEMES OF THE STUDY

Raw data extracts	Codes	Sub-themes	Main themes
<p>An investigation is very important, you need to go through whatever is provided to you from a documentation perspective, from the cash flow perspectives, from your previous financials' perspective, from a market analysis perspective etc. because that in its own right will determine whether you actually have a business.</p>	<p>Obtaining information</p>	<p>Pilot-in-the-plane (Conducting assessments in BR)</p>	
<p>You need data to review and understand before you can conclude that there is a potential RP.</p>	<p>Information assessment</p>		
<p>Its physically impossible to have a solution if you haven't looked into the affairs of the business so by the time you have the first meeting with management you going to have some superficial information. You going to maybe have met one or two people or maybe you've looked into a few documents.</p>	<p>Assessing company affairs</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>When we take appointments, we have a proper vetting process, I normally require quite a number of documents before I become part of any business rescue engagements. So, if you want to call it the investigation it is possibly what it is but it's the vetting process.</p>	<p>Vetting process</p>		<p>Principles of effectuation relevant to the DVO</p>
<p>Often what you get told by management at the first meeting is far different from what the facts are. You are again dealing with a management structure that has made many mistakes. Their own understanding of what the issues are often completely wrong.</p>	<p>Establishing facts</p>		
<p>Many BRPs who think they've got the entire solution for the business from the first meeting probably need to get their heads checked, they haven't understood what the issues are. So, the solution is always born out of the issues that you produce.</p>	<p>Identifying issues</p>		
<p>you soon realise what hidden information they didn't tell you, you</p>	<p>Discovering hidden information</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>soon realise all the different factors which actually then finalizes your decision as to what the solution would be.</p>			
<p>Management will tell you sweet things, they will tell you exactly what you want to hear because in the main they also do not want to give you this failure, some of them chances are they have an interest in the business from a shareholding perspective and they wouldn't want to go down the liquidation route and therefore to put it mildly, some of them will want to overstretch the truth a little bit.</p>	<p>Information assessment and optimistic narratives</p>		
<p>You have to do your investigation, determine what's the best possible solution given both of those but more leaning towards what you find on the ground because you may find that they may be hiding stuff, they might be misrepresenting stuff, they might be lying to you.</p>	<p>Discovering management untruthfulness</p>		
<p>Once you start investigations you become confident. You soon realise</p>	<p>Purpose of investigating</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>what's the creditor appetite, you soon realise what hidden information they didn't tell you, you soon realise all the different factors which actually then finalizes your decision as to what the solution would be.</p>			
<p>I think I will first look at the information before I, even though I have a gut feel of what's happening.</p>	<p>Investigations and gut feel confirmation</p>		
<p>I think it differs as your experience grows. If you are inexperienced you will find that you think you know everything and you make the assessment but it turns out to be wrong.</p>	<p>Experience</p>		
<p>We first have to do a proper pre assessment, I mean maybe in your field maybe you call this the quick and dirty but this is the independent debt review out of that it will tell you what the issues are and out of your pre assessment you have identified the issues and then you also on a high level come up with action points or</p>	<p>Pre-assessment</p>	<p>Pilot-in-the-plane (Challenges of prediction and the importance of investigations in business rescue)</p>	

Raw data extracts	Codes	Sub-themes	Main themes
recommendations that you need to put in place.			
<p>When I say there is no need to predict, you do need to know is there RP, yes or no but the exact outcome is invaluable as you go through the process so it's not to say that on day 1 you have to know is this gonna be a BRiL or a trade out or a liquidation. You can have an idea and there can be enough RP to get to work on it and then it can still change over time and that's fine.</p>	Reasonable prospect		
<p>The reason is as a business rescue practitioner you get historical information and sometimes you get recently updated information but, in most instances, it's not properly correct. So, we need to say the company that the ultimate result will be x, it's difficult.</p>	Incorrect data		
<p>I know what model it is that I will be following but you never actually know whether or not you are going to get there because it's a creditor-</p>	Creditor process		

Raw data extracts	Codes	Sub-themes	Main themes
<p>driven process and ultimately, I allow creditors to lead me in that respect. So, it's impossible for a practitioner to say where they are going to end up but you know what model you would like to follow but ultimately you are reliant on the support of your creditors.</p>			
<p>it would not be doing it justice, if you walk in and you think I've got it, day one I know what I'm supposed to do, day 2 this is exactly where I'm going to go. I think it's important to always be open to possibilities that reorganization could possibly go the BRiL route or liquidation.</p>	<p>Unpredictable solution</p>		
<p>You can't, initially when you start with the engagement visualize a solution and just continue with it. Because you have to follow specific processes especially in the initial stages of business rescue, you need to look at different models in order to make it work and there will be in most instances be changes to your</p>	<p>Changing models</p>	<p>Pilot-in-the-plane (Flexibility and adaptability in business rescue solutions)</p>	

Raw data extracts	Codes	Sub-themes	Main themes
initial thoughts compared to where you end up.			
The circumstances change and the investigations does not always include all data so the pre-rescue information is based on the information you are told by the company and management. Once you are a practitioner you start engaging with other affected persons to provide broader sets of information, that may lead you to different conclusions.	Discovered information		
Changing circumstances are changing circumstances, I've got to deal with the changing circumstances.	Changing circumstances		
You can only do what you can do so if you don't have the resources, you can't do more than that but you do have to use the resources you have but that doesn't stop you to source and find additional as you need.	Seeking additional resources	Bird in hand (The strategic utilisation of resources in distressed ventures)	

Raw data extracts	Codes	Sub-themes	Main themes
<p>Well it goes to RP and whether I have a business. Do I have a market place, do I have the product, do I have means of production and if I unpack all of those things and take a little bit of a resource-based view, based on those resources I can start to assess whether I have the ingredients for a solution that is going to be better than liquidation. So, once I've got those, then I can start saying okay, with these resources at my disposal, how can I combine them in a way that will result in a better way than a liquidation or result in a return to a solvent trade in a sustainable solvent trading. And then I will know what resources I have available, what I can use to get other resources like for example working capital etc.</p>	<p>Reasonable prospect</p>		
<p>But in this case, I will probably go with a 4 simply because you can't give up on your solution just because you can't find the right resources (solutions) to stop the bleeding or whatever happens to be available.</p>	<p>Resource acquisition</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>I think the solution is determined by the resources because you have to be very much realistic in your plan, you can't just envision things that are impossible to do. You have to work with what is available to you, to know the resources in front of you that you have.</p>	<p>Resource-driven approach</p>		
<p>You obviously can't work under the assumption that with every distressed venture that there's going to be resources made available to you after that, investments or something like that. Sometimes you have to make do with what's in front of you and you have to obviously come up with a solution that will work best with what you have.</p>	<p>Using available resources</p>		
<p>If you are going to shove down certain businesses or you are going to close down certain businesses, you may well end up exiting certain management and competencies. I mean they are very often you have to sell best bits so save the other bits. You have to have a solution and then</p>	<p>Solution determines competencies and existing management</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>decide what resources you need for that solution. You can't build a solution around existing management.</p>			
<p>Unless it's such a specialised industry that it's very difficult to find replacements. In general employees tend to be dispensable. You can always persuade them to stay for a short while employees are dispensable, you can find other people so you can't base your turnaround on them, you can always find people to take their positions.</p>	<p>Employee replacement</p>		
<p>I think the solution should drive the key personnel, expertise and competencies you require. The mere fact that the current existing management competencies that's in place got us to where we are would be a problem as far as finding a way to make my solution fit in them. So, for me it would be this is where I am, this is my solution, this is where we need to be going to and that will then inform who stays and who can be</p>	<p>Management contribution to distress</p>	<p>Bird in hand (Solution-driven approach in BR)</p>	

Raw data extracts	Codes	Sub-themes	Main themes
<p>offered a hand shake in that regard but in the kind of competencies you require, because the reality is that some people may not necessarily be needed in the new solution and that conversation needs to be had.</p>			
<p>Well if you have a solution for the business but it does not have the necessary resources, then you are going to have to find the resources. So, if they don't have a strong financial department for example or you find that the production team is not up to scratch or whatever then those resources you don't have to find.</p>	<p>Solution drives resources</p>		
<p>If you've got your envisaged solution, then you need to source PCF and that's the better way to do it.</p>	<p>Solution determines PCF</p>		
<p>On the other hand, if it's under distress because its early in its lifecycle but there is a great future, then it's easier to sell that idea or vision to the investors or employees and to get people involved.</p>	<p>Selling the vision</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>You may look at a business and say its viable but the existing owners or management or they don't have the resources in which case you will go and find them whether it be money, skills or something else.</p>	<p>Viability and resource and acquisition</p>	<p>Bird in hand (Resources and viability in BR)</p>	
<p>If it's a weak solution, let me say it this way, if the viability is marginal then it strongly relies on available resources. If it's a strong viability then it's easier to go after resources. So, if I get to a company and the viability is marginal or weak then it's difficult from proper personnel, get funding just the overall rescue is more difficult. Then you are much more reliant on the resources that you've got</p>	<p>Weak viability</p>		
<p>If you've got a plan that will work and the resources aren't currently available, you can always look for additional resources. So, there might not be cash in the businesses accounts right now but I can go and get PCF.</p>	<p>Seeking PCF</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>I know the view about the availability of PCF being a key component for the success of BR. If you've got unencumbered assets and you've got an adequate business case then funding in theory should be available</p>	<p>Adequate business case</p>		
<p>On the other hand, if you going to want to show your plan to more equity type investors or funding or trying to get outside the worst case then perhaps you are more linked to a rosier picture, the best-case scenario.</p>	<p>Best case scenario</p>		
<p>That's why you do a business rescue and why you do a turnaround the aim has to be to give the best possible return to affected parties that will not be achieved by immediate liquidation.</p>	<p>Affected parties return</p>	<p>Affordable loss (Balancing the best-case scenario and the worst-case scenario)</p>	
<p>I think the whole idea of BR process, I don't think the idea was just to get out of the wood works. I think the idea was get out of the wood works, stay head above water but more so make sure that the business still</p>	<p>Saving the business</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>works. If you just say what's the worst that could happen let me drive with that you run a situation where you just avoid that for a couple of months and then once you are gone the business is back to same situation so I think it's the best-case scenario and work towards making sure that is achieved for the business.</p>			
<p>As a turnaround practitioner you look at the best-case scenario, you will always have the worst-case scenario in your mind, we use the scenario in our mind to convince certain parties to come to the party, demonstrate to them that guys this is the best scenario in fact here is the worst-case scenario if you don't support the best-case scenario. But we utilize the worst-case scenario really as an addition to the negotiations we have with certain stakeholders that we need their buy in for the best-case scenario. I work towards the best-case scenario all the time and I determine how it can be achieved so I strongly agree with that (statement</p>	<p>Strategic negotiation approach</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>1, number 1). But there is a usage of the worst-case scenario, we call it the caveat in negotiations.</p>			
<p>It's a high-risk business, you need to accept that, you can't have your decisions being based on, its honestly based on a risk, you not going to make too risky of a decision in the first place but first price always needs to be how you can save the business or how you can implement your solution. Everything else needs to be secondary.</p>	<p>Risk centred approach</p>		
<p>If I want to save a company and there are 700 employees, I'll probably say I don't want them to lose the employment. So, for that part is to minimise what they lose, hopefully in the same solution by minimising what employees might lose you maximise what creditors and shareholders gain.</p>	<p>Saving jobs</p>		
<p>Because you start from a distressed situation for me it's better to work on the worst case and build from there.</p>	<p>Creditor perspective</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>Because you have to sell the business rescue plan as well, you need to remember that creditors need to vote on your plan. They have been told some stories and promised for a long time so if you sort of put a best-case scenario I think that a lot time you get people that talk about the solution that is achievable.</p>			
<p>You have to look at both the worst-case scenario and the worst-case scenario, yes you look at the best-case scenario but you cannot overlook the worst-case scenario because those are the challenges that you are gonna face to get to your best-case scenario.</p>	<p>Dual scenario analysis</p>		
<p>We present an opportunity to potential lenders and they make a call on whether that risk is worth it to them. It's rare that we get to decide how much money goes in, that's the creditor's decision but I do think we try get the resources we want even if it's risky.</p>	<p>Creditor risk assessment</p>	<p>Affordable loss (Risk and stakes involved in BR)</p>	

Raw data extracts	Codes	Sub-themes	Main themes
<p>So, you can't place a company into a worse situation than it was on day 1 or the commencement date. I would generally not risk more money than I am willing to lose in pursuing a specific solution purely because I obviously need to cognizant of the risk and the outcome for creditors. So yes sometimes you have to take one step back or two steps but you really have to manage that process because there's always a risk that you have taken one step back suddenly something goes horribly wrong and then you enter into liquidation and you are in a worse situation then somebody is not only gonna sue the practitioner but it's not gonna look good on his resume'.</p>	<p>Managing creditor investment and reputation risk</p>		
<p>The employees have a lot to risk because they don't have a job so you find that employees they will go and still work even if they are not paid or not paid on time or paid late because they have got a lot at risk. They are putting more at risk by continuing to</p>	<p>Loss of jobs and salaries</p>		

Raw data extracts	Codes	Sub-themes	Main themes
work without getting regular payment of full pay.			
If you just take it from the BRP's side, I mean me personally there is probably a risk for my fees because of when the BR doesn't work.	Loss of BRP fees		
You never know where the solution is gonna come from and all stakeholders have the opportunity to contribute to the solution.	All stakeholders		
And in my view, that is what the act requires us to do in terms of section 7k. Employees for example, have no voting power unless they are in arrears with their salaries but they are very important stakeholders.	Act-driven	Crazy quilt (Stakeholder consideration and creditor involvement in BR)	
Any business rescue practitioner that does not cater for the major creditors and their voting power, you can't spend with respect, employees, unions for example. You can't spend your entire rescue talking to them and they are very important obviously they are very important but not	Sustainable rescue (creditor balance)		

Raw data extracts	Codes	Sub-themes	Main themes
<p>dealing with the secured creditors who are the session of your debtors is just brain dead. You have to have a balance between what you are proposing so the company comes up the other side, it's not actually being set up for failure again.</p>			
<p>So, stakeholders are the clients, your suppliers, it's important that they supply you with the raw materials, services, to give you the product, those are critical stakeholders outside of creditors is suppliers, your clients and it's your key technical team, the guys who are able to execute on your turnaround plan.</p>	<p>Critical stakeholders</p>		
<p>Whilst you need to make sure that all stakeholders are catered for and the main goal should always be saved jobs, save the business, keep the economy going, the realistic part of it is if you have a controlling vote by a creditor who is even unsecured, you cannot publish a plan that does not cater to those shareholders.</p>	<p>Creditor control</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>“It’s a reality, you not going to spend 80% of your time dealing with 20% of the voting interest. You going to spend 80%, I’m not saying you don’t speak to all stakeholders but you definitely are going to give far more precedence to whoever has a significant vote and interest.</p>	<p>Creditor prioritisation</p>		
<p>if it’s a big group where there is a consortium where there is multiple thousand creditors and there is that 80/20 rule of the thousand creditors you will find that most of them is small creditors, just in terms of the practicality in terms of the practitioners time you can’t speak to thousand creditors so in that scenario ill consider the creditors committee, for me the banks and other main creditors, that’s the group that will have a vote and determine the business rescue.</p>	<p>Big committee context</p>		
<p>You have to use creditors’ committees to get a general buy in and reality check.</p>	<p>Creditor buy in</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>Again, creditors are a major stakeholder in your proceedings, they are an affected party, they've got voting interest, so I prefer the creditors committee to participate because that also alleviates a level of litigation and hostility, it increases transparency in the manner in which you operate.</p>	<p>Creditor transparency enhancement</p>		
<p>They give valuable inputs in the plan. You meet with them; they represent the general body of the creditors so it's easy to get things across the line so and you also able to manage and get managed stakeholder through them instead of engaging each and every creditor which is impossible especially in large rescues.</p>	<p>Creditor inputs</p>		
<p>The role and function of the creditors committee is misunderstood by the creditors. They think it's there for a purpose other than develop the BR plan.</p>	<p>Misunderstood creditors committee purpose</p>		
<p>If it's a small business rescue with few creditors, we can't have a</p>	<p>small creditor context</p>		

Raw data extracts	Codes	Sub-themes	Main themes
creditors committee just for the sake of having a creditors committee, that's a waste of time.			
It's a lot easier to engage with people who understand the company and the business and are potential partners.	Partnerships		
So, you need to look at who can supply most of the items I could buy and perhaps nominate a specific stakeholder or supplier that might be more useful for me and then treat them as critical suppliers or critical stakeholders within my process.	Identifying critical suppliers and stakeholders		
So, you need to look at who can supply most of the items I could buy and perhaps nominate a specific stakeholder or supplier that might be more useful for me and then treat them as critical suppliers or critical stakeholders within my process.	Stakeholder collaboration	Crazy quilt (Stakeholder engagements and collaborative partnerships in BR)	
I think you need to engage with those that were previously involved because they've got the institutional knowledge, you also need to identify	Stakeholder engagement		

Raw data extracts	Codes	Sub-themes	Main themes
<p>bringing in new partners to bring in new ideas and also new management skills, new expertise, so you also need all of those things and that is dependent on the solution that you are bringing in.</p>			
<p>You need the buy in of your creditors even before you publish the plan, so what we normally do when I publish a plan I know the plan will be approved purely because I've tested the water, I've looked at the results and we've kept people informed because of the transparent nature of our process so I would not publish a plan if I know that creditors might not approve it.</p>	<p>Creditor buy in and support</p>		
<p>For me the interactions would have happened throughout the investigations etc. and once I'm at a BR plan, I must have a plan, I can't be going and saying what do you think the plan should be. I would have had the interactions with them prior to the investigations, what do</p>	<p>Pre-planning engagement</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>you think, what do you like etc. in arriving at my proposed plan.</p>			
<p>In terms of the Act, the business rescue practitioner is obliged to do everything in his own power to implement the adopted plan, so you cannot and you will also know the theme to the amends to the business rescue plan most probably the most difficult one at the moment in business rescue.</p>	<p>Sticking with an adopted plan</p>		
<p>There has been a decision recently that once a plan has been accepted, that's the plan you have to implement. You want to change the strategies, you got to get a new plan. You have that plan, you got to implement that plan. You don't have the ability to change the basic plan for example if you want to go from a business rescue into a liquidation and you already got an accepted BR plan that gives you another outcome, you'll have to have a meeting with affected parties in order to make that change.</p>	<p>Change approval process</p>	<p>Lemonade (Strategies for implementing BR plans)</p>	

Raw data extracts	Codes	Sub-themes	Main themes
<p>I am open to changing circumstances. We live in such an elastic global market; the future really belongs to the practitioners that are willing to open their minds to new ideas and are elastic in their thinking.</p>	<p>Elastic thinking</p>		
<p>You need to leave yourself room to change the BR plan. With amending the BR plan, you need to leave yourself room to change the BR plan, things change but amending a plan comes with a bunch of new risks</p>	<p>Flexible BR plan</p>		
<p>I will always change the plan and that is part of the consultation process and transparency in our process so I continue to speak to stakeholders and if there is something that arises from our discussions or we find something we weren't aware of then obviously that will make a difference and if it makes a difference in our proposed model then I will change it.</p>	<p>Stakeholder engagement</p>	<p>Lemonade (Adaptability and flexibility in BR planning)</p>	
<p>Things are changing, business changes every single day, circumstances etc. Those obviously</p>	<p>Dynamic business environment</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>will change and almost require that the plan incorporate those changes. So, from my perspective I would take those into account but some I think as a practitioner you need to be comfortable with the fact that they will change given the advanced nature of the implementation or the adoption of my plan.</p>			
<p>I would like to think that they are like me and they do what I do but I am not convinced. Like I said earlier, it depends on the experience you have. You may find that for example student practitioners after the first meeting that they think they have an idea of what the solution is and if you look at the more inexperienced practitioners they might think that they know the solution but they might be wrong.</p>	BRP experience	Pilot-in-the-plane	Perceptions of industry (principles of effectuation)
<p>I think the good BRPs do it more in terms of taking longer to develop the strategy so they have more information and I think the good BRPs will do that on purpose. They</p>	BRP competence		

Raw data extracts	Codes	Sub-themes	Main themes
<p>will be consciously open to changing their initial gut feeling based on new information. I think the poor BRPs will go in from either being stubborn or just in a rush, they will probably walk into a meeting, chat to the management and say that's the plan, I don't really care about doing more digging, I can tick the boxes for my duties and let's go.</p>			
<p>I think most of these BRPs go into these without even doing the pre-assessment so once they have been appointed that's why we see a lot of companies going into BR, companies that are not supposed to be in rescue because they are not even candidates. That's why we are getting a bad reputation about BR.</p>	<p>Lack of pre-assessments</p>		
<p>This is based on just reading up and reading up on rescue, I think rescue practitioners out there seem to go in with a preconceived solution which then once you have a meeting with management it somehow just gets</p>	<p>Idea-driven</p>		

Raw data extracts	Codes	Sub-themes	Main themes
confirmed in a way and then you run with that.			
The ones (BRPs) that have been successful do a very thorough study of the distressed venture, the one that I was involved in because it was a client of ours, the practitioner wasn't competent enough and often surprised by new information or the fact around trying to figure out what's the best way of doing things.	Investigation-driven		
This depends on what sort of background you have, if you have a legal background you'll probably go 1 (idea-driven) but if you've got a financial background, then definitely 2 (investigation-driven). So, I'm now talking on behalf of other BRPs. Some of these people are so weak, that's why we are sitting with a successful business rescue rate of between 12 and 15%."	Educational background and BRP profile		
They don't think about it, the majority of BRPs have never done a turnaround in their lives and they	Lack of turnaround intention		

Raw data extracts	Codes	Sub-themes	Main themes
<p>have done a lot of liquidations and they may have administered a court process or a legal process but to actually turn a business around even the large businesses they have just not done it. So, they go in there and most cases if it's not a liquidation or an oddly wind down an alternative jumped out and bit them.</p>		Pilot-in-the-plane moderators	
<p>I think a lot of them do it because they want the work. They will take the assignment because they want the work and make the decision later about whether they should have done that or not.”</p>	Pursuing BR jobs		
<p>There is pressure, the act itself with the 25-day rule does not allow BRPs to apply their minds properly that causes pressure. There's two things there, there's pressure on the desktop plan and the other issue is the issue of not real BRPs, people who are attorneys or liquidators on this side and rescuers on this side they've got lots of files, he's got 10 appointments, he doesn't care really,</p>	Chapter 6 pressure		

Raw data extracts	Codes	Sub-themes	Main themes
<p>he's going to look at the numbers, do a desktop, publish a plan see how much money he's going to make out of the thing and plans are pretty standard so it's easy to cut and paste the plan so to answer your question, there's also an issue of laziness.</p>			
<p>People just want an opportunity to earn a few bucks and they don't take the appointments for the right reasons. I mean if there is no reasonable prospect of the business being saved then don't do it or otherwise get the thing in liquidation. So, they first suck it dry and then pass it on to a friend who is a liquidator and then they share a fee which is absolutely ridiculous what happens."</p>	<p>Pursuing BRP fees</p>		
<p>On the one hand I think it's just not applying, it looks like its them not willing to apply their minds. I think it's that thing of I've done this so many times therefore what's another business instead of immersing yourself in the specific business and</p>	<p>Lack of mind application</p>		

Raw data extracts	Codes	Sub-themes	Main themes
get a good understanding. I think that's just how they do it.			
I think it's a question of skills 1, and skills and experience within the turnaround environment. You know you find that if you look at the list of practitioners and you look at the qualifications, I don't think they are as relevant in a turnaround scenario.	Skills and experience		
I think resources do drive a lot of rescues, I haven't worked with so many. I think from experience they will get to a point where they say we know if you don't have PCF, you not going to make it work because that's what's happened in the past so we will see first of all if there is PCF and then decide what we can do.	PCF-driven	Bird in hand	
They have a look at what assets there are, can the assets give some sort of return and with a bit of luck, deliver something to creditors.	Assessing assets		
So, I would say the industry looks at the resources more aggressively than	Resource-driven approach		

Raw data extracts	Codes	Sub-themes	Main themes
coming up with a plan irrespective of the resources.			
In fact, it's completely the opposite, they are the first ones to know am I going to get paid and how much is in the bank account, so that's what they are after. So, they look for resources for them in the pocket.	Pursuing BRP fees	Bird in hand moderators	
I think knowledge and circumstance, you need a different set of skills, you know you need a huge amount of emotional intelligence, you need a huge amount of effective communication skills, you need high levels of negotiations just outside the competencies of understanding. So, the reason why they are doing it is the lack of capacity, competency and knowledge.	Capacity competency and knowledge		
I think most BRPs are driven by they want to improve the situation so by the gains.	Pursuit for gains	Affordable loss	
I think most BRPs are generally entrepreneurs so they are going to	Entrepreneurial thinking		

Raw data extracts	Codes	Sub-themes	Main themes
<p>look more on the positive that will come of it, so what can be gained. Their mind set, they are problem solvers, they are not looking at mitigating losses, they are looking at the required solutions.</p>			
<p>Definitely by what can be affordably lost. They are driven by the ability of the banks calling, from the shareholders, purely defending the shareholders, I'm talking about the majority because they have been appointed by the shareholder of course they are going to look at their interests because if you don't pursue this thing, I'm going to lose everything. I don't care what solution, just buy me time. So, they are driven by what can be lost not necessarily what can be achieved.</p>	<p>Risk mitigation</p>		
<p>I don't think they think about it, I don't think they are trying to screw over employees for example, I think their mindset is well if you save the business that saves more jobs than would have been lost in liquidation.</p>	<p>Saving the business</p>	<p>Affordable loss moderators</p>	

Raw data extracts	Codes	Sub-themes	Main themes
As I say it's like a character trait of people in the industry that they look to improve things, they are optimists looking for where they can do better.	BRP optimism		
They consider the ones with voting power because whatever the stakeholders with voting power say goes and which is contrary to what the act says. The act says we must balance the interest of all stakeholders.	Voting power influence	Crazy quilt	
Although you want to consider all stakeholders, stakeholder with a key voting power tends to take precedence.	Critical voting stakeholders		
It's deliberate because you need the majority vote so it's the shortest route to passing a plan to ask the biggest creditor what they want and put that into a plan.	creditor approval focus	Crazy quilt moderators	
So generally, in the BRP industry many of the BRPs have a clause in their plan that says as soon as the plan is approved, substantial	Pursuing contingency fees		

Raw data extracts	Codes	Sub-themes	Main themes
implementation is given. So, they'll get their fees or they will get a contingency fee on the approval of the plan.			
I think they definitely adapt that plan as new information emerges. You'll rarely find a first draft of a BR plan for example being the final, there is always new information that comes to light, there's always changes that creditors might ask for. So, from the beginning to say you will publish a perfect BR plan, you are living in dream land.	BR plan adaptability	Lemonade	
Again, because it's not accepted yet, I think they adapt as new information becomes available.	Information-driven adjustments		
I think generally, amendments only happen when you get pushed into a corner so I don't think people anticipate amending the plan when publishing it.	Unforeseen circumstances adjustments	Lemonade moderators	
I think that's just how they do it. That's the commercial environment	Commercial environment adaptability		

Raw data extracts	Codes	Sub-themes	Main themes
that we operate in, there is no certainty and you've got to provide for room to manoeuvre.			
If the company's assets vastly exceed the assets and there are no prospects of rescuing, you would go into a liquidation immediately because anything would just waste time and effort.	Assets	Resources in BR	The choice for reorganisation/BRiL/liquidation
Firstly, you need to look at whether or not you have sufficient working cash flow, that pulls into your PCF as part of your model. There must be cash flow, so if there is no cash flow, the company must go into liquidation or you can flow a structure disposal process and create better return for creditors.	PCF		
It boils down to the ability of the company to survive, if you are going to rescue, access to cash, you need to know that, for example someone knocks at your door and says I can't pay my staff, salaries are due on	Cash flow		

Raw data extracts	Codes	Sub-themes	Main themes
Monday, that's not a rescue, that's a liquidation.			
I think you have to ask yourself, is there a business to rescue, in what industry. Is it overtraded? You got to look at the context of both, is there a real business, what is the longevity of this business, what are the available resources.	Business viability assessment	RP assessment	
Obviously a BRiL in terms of deciding whether there is a BRiL basically what you need is a managed wind down, you need to know that there are assets. If you are dealing with a company that offers a service or all of their assets are finance lease agreements, a BRiL is not gonna work for you because you are not going to get a better return than in liquidation because in any of them, the liquidation (BRiL) will be very low below the liquidation amount.”	Assets evaluation		
So for a turnaround to happen you need to have a business, you need to do the swab test, do we have a	DWAB test		

Raw data extracts	Codes	Sub-themes	Main themes
<p>business, if it fails then what can we reorganise and restructure in order for there to be a business, if that fails then you go to how do we provide a better return to creditors than in liquidation then you decide on a BRiL, if that fails then a liquidation.</p>			
<p>You assess the market, what sector is this business operating in, what market share do they have, who are the leaders, what's the competition, you look at the history of the business, at what point did this business make money, at what point and what was the cause of the financial distress and then there just on that basis you determine whether there is a business. We then come to the actual patient, what's wrong with it, look at the assets of the business compared to the liabilities, you look at the financial model that was being carried in the business, if it was making losses, the reasons why, we look at the securities, you look at the</p>	<p>Market assessment</p>		

Raw data extracts	Codes	Sub-themes	Main themes
employment structure, and the labour issues.			
<p>“Every business rescue needs a champion, someone who is going to be the proposer of the rescue plan, that is not the practitioner, that is either an existing shareholder, a new shareholder, or the existing management team. There is someone who has to be the sponsor or the champion of the rescue. That person exists, then you can pursue a standard rescue, they don’t exist, you only got two options, liquidation or BRiL.</p>	Business champion		
<p>You need to know whether the stakeholders, the banks for example would support a rescue, you know are they, you know my first few people I try to talk to after I’ve spoken to a client is someone in a senior position at a bank that I know, so there is this client, tell me your view, would you support a restructuring and a rescue because if you don’t have the support of your financiers you also in trouble and</p>	Obtaining creditor support	Stakeholders in BR	

Raw data extracts	Codes	Sub-themes	Main themes
those are the types of things that we look.			
<p>Also look at the management, for me, do they have operational management that can implement your plan, it's very difficult to attract certain individuals under business rescue into a business. If you don't have good management that understand the industry, it comes back to the question, do you have a business." If you are absolutely convinced that the fundamental missing piece is a small reorganisation or major reorganisation but the leadership within the organisation can still continue. So, I think the question should be can the leadership within the organisation with the right input continue to drive the business to success because they are the right people but the bugged up a little bit. You can assist them a little bit and they can carry on.</p>	Operational competency assessment		

Raw data extracts	Codes	Sub-themes	Main themes
<p>The biggest one for me is whether that has been director maleficence, if there is any indication that in the past there has been fraud or kind of culpable negligence then I would much rather opt for liquidation because liquidators just got so much power to investigate criminal charges than BRPs do.</p>	<p>Director misconduct evaluation</p>		
<p>So, in distressed settings, generally only tangible assets are considered a useful resource. So, I would argue that when you look at it from a construct perspective, absolutely, I think that there has to be a relationship between resources and RP. I think a more refined one is free assets and I think resources that are typically and I know that management skills, talents, knowledge is a resource that can be used and that might flow into determination because how do you measure that.</p>	<p>Assets</p>	<p>Resources and RP</p>	<p>The relationship between effectuation and RP</p>
<p>Yes, so if the company has run out of resources whatever those resources</p>	<p>Cash flow and PCF</p>		

Raw data extracts	Codes	Sub-themes	Main themes
<p>they might be, then it doesn't have any runway and without runway you can't take off. So, you need to have some room to work towards a solution so if there is absolutely zero cash, there is no runway because you can't buy raw materials or stock or whatever it is you need in the business, you can't pay employees. If you've got some cash, some funding, then you have the opportunity to trade. if your suppliers are refusing to supply, you've got no operating resources. So, every company that's considering business rescue has to have runway and if it doesn't have cash, it needs PCF before you start so that you create the runway and you need a champion. The two important resources are champion of the rescue and cash and if you don't have those, even if the business is viable, it will probably end it in liquidation when put in rescue.</p>			
<p>Yes, I'm not sure what the relationship is. Is there a correlation, yes? Is the relationship a causal</p>	<p>Stakeholder cooperation</p>	<p>Stakeholders and RP</p>	

Raw data extracts	Codes	Sub-themes	Main themes
<p>relationship, maybe not, is it a mediating and moderating relationship, probably because, so yeah definitely. Trams, Ndofor study put stakeholder management as a key component so if you've got aggressive antagonistic stakeholders it can moderate the RP and if you've got cooperative stakeholders, they could enhance it.</p>			
<p>If the business and management still have the support of creditors, your RP is so much higher because you have access to PCF whether that be in the form of actual cash injection or just suppliers continuing to provide a service. Whereas if management has already burnt bridges with its suppliers and the banks especially, it just becomes so difficult to turn this thing around because you are just fighting from day 1 to get any materials or services to the business. There is a correlation with who the stakeholders are and what is the</p>	<p>Stakeholder support</p>		

Raw data extracts	Codes	Sub-themes	Main themes
relationship at the beginning of a rescue.			
<p>Yes, there is definitely a correlation. Some of your stakeholders are your bigger creditors which are often the banks or the people that have loaned you money and you have to work with them and you need to work with them because you need to be on good terms with them to allow certain months of, let's say you need a payment , you need 3 months of not paying in terms of your agreement or something to let the company breathe a bit. The same is true with stakeholders such as the management, you need to work with them you have to work with the directors, the shareholders because you need them to make this a success.</p>	Stakeholder collaboration		
<p>100%. Without the buy in from creditors you are going nowhere and unfortunately it happens all too often that the BRP will publish what is in all fairness the best possible outcome for the business sometimes</p>	Stakeholders buy in		

Raw data extracts	Codes	Sub-themes	Main themes
<p>envisioning a compromise with some of the creditors, like a payment plan with the creditors but sometimes out of pure bad blood stakeholder will vote against the plan and its very unfortunate. There is remedy for that you can have the vote set aside based on that its unfair but your plan is based on creditor approval, it's as simple as that.”</p>			
<p>Yes, definitely. That's why stakeholder management is not talked about as much as it should be. You can be the warren buffet of turnaround or investment but it doesn't effectively mean in this environment you will thrive because of your ability not to have stakeholder management. There is a massive correlation, it's actually critical, stakeholders and RP.</p>	<p>Stakeholder management</p>		

APPENDIX F: PROFILE OF PARTICIPANTS

Participant pseudonym	Company pseudonym	Job title	Gender	Duration of interview (minutes)
TP1	C1	Senior BRP (TP)	Male	104
TP2	C2	Senior BRP (TP)	Male	82
TP3	C3	Senior BRP (TP)	Male	42
TP4	C4	Senior BRP (TP)	Male	71
TP5	C5	Senior BRP (TP)	Male	59
TP6	C6	Senior BRP (TP)	Male	52
TP7	C7	Experienced BRP (TP)	Male	50
TP8	C8	Senior BRP (TP)	Male	68
TP9	C9	Experienced BRP (TP)	Male	50
TP10	C10	Senior BRP (TP)	Male	37
BRPLL1	C11	Senior BRP (Liquidator and attorney)	Male	53
BRPLL2	C12	Senior BRP (attorney)	Male	44
BRPLL3	C13	Senior BRP (Liquidator)	Male	65
BRPLL4	C14	Experienced BRP (Liquidator)	Male	62
BRPLL5	C15	Senior BRP (attorney)	Male	33
BRT1	C16	BR trainee	Male	43
BRT2	C17	BR trainee	Female	46
BRT3	C18	BR trainee	Male	46

Participant pseudonym	Company pseudonym	Job title	Gender	Duration of interview (minutes)
BRT4	C19	BR trainee	Male	73
BRT5	C20	BR trainee	Male	54
				Average minutes: 57

APPENDIX G: ANALYSIS OF RESEARCH INSTRUMENT A

TPs	1	2	3	4	5	6	7	8	9	10	Average	Effectuation/causation
Pilot in the plane	5,75	4,5	6	4,5	4,75	5,25	6	5	5,25	4,33	5,13	Strong inclination towards effectuation
Bird in hand	2,2	4,5	1,25	3,25	2,75	4	1,6	2,25	3,25	3	2,8	Strong inclination towards causation
Affordable Loss	3,25	2,75	1	3	3,5	3,5	2,25	2,75	2,25	2	2,64	Strong inclination towards causation
Crazy Quilt	3,75	3	6	4,75	5	4,5	4,25	4,25	4,5	4,25	4,42	slight inclination towards effectuation
Lemonade	3,75	3,75	6	4,25	3,75	4,25	5,3	5	2,3	3	4,13	slight inclination towards effectuation
BRTs	1	2	3	4	5	Average	Effectuation/causation					
Pilot in the plane	5,5	3,5	5	4	4,5	4,5	slight inclination towards effectuation					
Bird in hand	2,5	3	3,25	2	2,5	2,65	Strong inclination towards causation					
Affordable Loss	3	3,25	3	2	1,25	2,5	Strong inclination towards causation					
Crazy Quilt	5,25	5	3,25	4,25	4,25	4,4	slight inclination towards effectuation					
Lemonade	4,25	4,75	4,5	4,5	4,75	4,55	slight inclination towards effectuation					
BRPLLs	1	2	3	4	5	Average	Effectuation/causation					
Pilot in the plane	5,25	6	4,5	4,5	3,5	4,75	slight inclination towards effectuation					
Bird in hand	3,12	2,25	1,75	4	3,25	2,87	Strong inclination towards causation					
Affordable Loss	4,75	1,25	2	1	2,5	2,3	Strong inclination towards causation					
Crazy Quilt	3,75	4	3,75	5,75	6	4,65	slight inclination towards effectuation					
Lemonade	2,25	3,5	4,25	5,75	4,25	4	slight inclination towards effectuation					

APPENDIX H: EDITOR'S LETTER

Marielle Tappan
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Email mteditorialinfo@gmail.com



Date of Edit: 14 December 2023

Edit: Thabang Madigoe

INVESTIGATING EFFECTUATION THEORY APPLICATION IN PRACTICE WHEN EVALUATING A DISTRESSED VENTURE OPPORTUNITY

To whom it may concern,

I, Marielle Tappan, trading under the name MT Editorial, hereby confirm that I am a language editor.

I have extensive experience in the field of language and publishing and received my Bachelor of Information Science in Publishing from the University of Pretoria. I am also a registered member of the Southern African Freelancer's Association.

I hereby declare that the editing done for any client is done with the utmost diligence and the full appreciation of the English language and all of its intricacies, as was done for edited sections of this document.

If there are any other queries, please do not hesitate to contact me.

Kindest Regards,

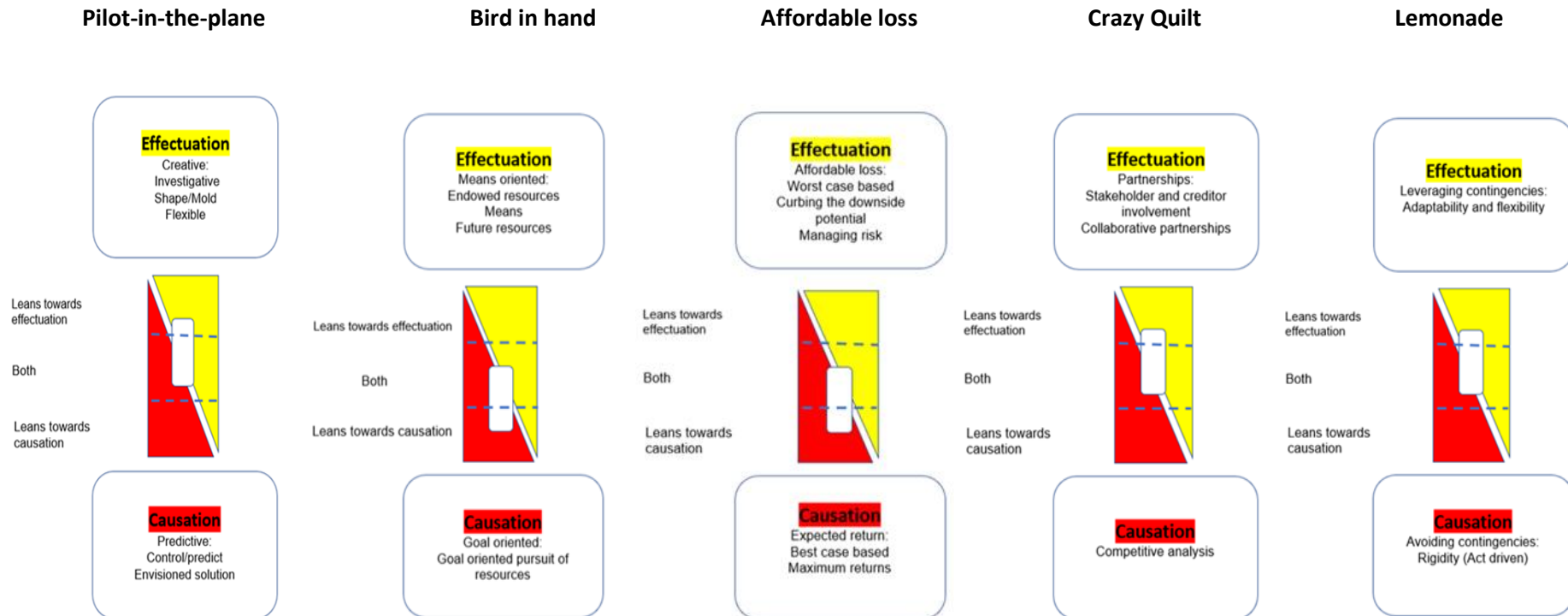
Marielle Tappan

Owner, MT Editorial
(BIS) Publishing
SAF03058, SAFREA

Marielle Tappan

APPENDIX I: A VISUAL DEMONSTRATION OF WHAT BRPS DO IN PRACTICE VS THEIR PERCEPTION OF THE INDUSTRY

What BRPs do



BRPs' perception of the industry

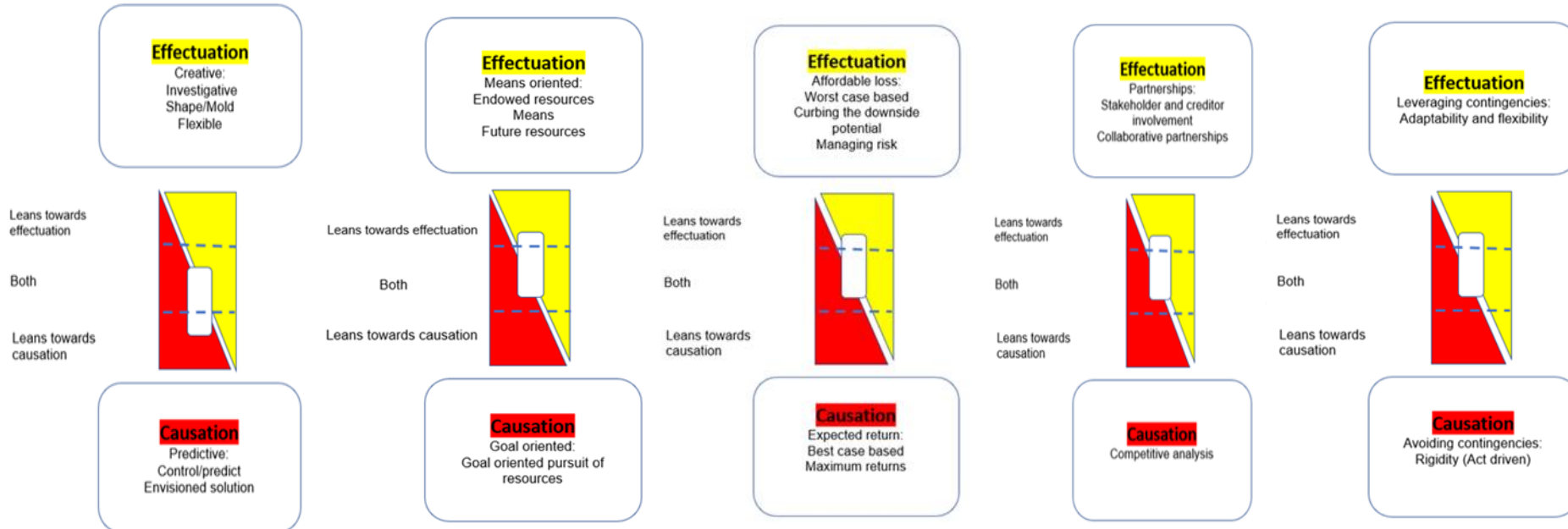
Pilot-in-the-plane

Bird in hand

Affordable loss

Crazy Quilt

Lemonade




APPENDIX J: TECHNICAL CARE CHECKLIST

Check that your final research proposal complies with the specific requirements outlined below. Print a hard copy of the document, proofread it carefully and then double-check yourself against the following questions:

TECHNICAL CARE	✓ or ✗
1. Cover (title) page	
Is the information supplied on and the layout of the cover/title page correct? Check the cover/title page against the criteria in Point 6 on p. 5 and against the example in Annexure A on p. 97 of the technical care requirements.	✓
Use <u>single</u> line spacing on the whole cover/title page.	✓
The cover/title page should not have a page number.	✓
2. Evaluation form	
Have you included the evaluation form required for the specific assignment?	✓
Check that you have added the following to the evaluation form: <ul style="list-style-type: none"> • The correct course name and course code • Your title, initials, surname and student number • The evaluation criteria and mark weights that apply to the assignment 	✓
The evaluation form should not have a page number.	✓
3. Declaration regarding plagiarism	
Have you completed and <u>signed</u> the declaration regarding plagiarism?	✓
Have you used <u>single</u> line spacing in the declaration regarding plagiarism?	✓
The declaration regarding plagiarism should not have a page number.	✓
4. Table of contents, list of figures and list of tables	
Update the Table of Contents, List of Figures and List of Tables to include all the headings and figure/table captions in the document. See the instructions in the relevant template.	✓
Are all entries in the Table of Contents, including references to appendices, complete with the correct page numbers?	✓
The List of Figures and List of Tables should appear on a separate page after the Table of Contents.	✓
Are the entries in the List of Figures and the List of Tables complete with the correct page numbers?	✓
The pages containing the Table of Contents, List of Figures and List of Tables should be numbered in Roman numerals: i, ii, iii, iv starting at i.	✓
Check the Table of Contents, List of Tables and List of Figures for any errors marked as "Error! Bookmark not defined".	✓
5. Page margins	
Are the left and right margins of the main document all set to 2 cm?	✓
Are the top and bottom margins of the main document all set to 2.54 cm?	✓
Is the paper size of the whole document set to A4 in MS Word?	✓

TECHNICAL CARE	✓ or ✗
Is the paper size on your printer correctly set to A4 and not to 'Letter'?	✓
6. Body text	
6.1 Assignment title	
<p>The assignment title should be typed on the cover page and at the top of the first page of the main body following directly after the Table of Contents (i.e., page 1 with the heading INTRODUCTION).</p> <p>Check the following:</p> <ul style="list-style-type: none"> • The titles on the cover page and on p. 1 should have the exact same wording. • Both titles should be typed in bold, UPPER CASE and should be centred horizontally (from left to right) on the page. • There should be no full stop at the end of the title. • The title on the cover page should have single line spacing and the title on p. 1 should have 1.5 line spacing. • Leave a single blank line open after the title on p. 1 and before the first heading on this page. 	✓
6.2 Page numbering	
The pages containing the cover page, evaluation form and declaration regarding plagiarism should <u>not</u> be numbered.	✓
The pages containing the Table of Contents, List of Tables and List of Figures should be numbered with Roman numerals (i, ii, and iii) starting at i.	✓
All the pages in the main body of the assignment, in the list of references and in the appendices should be numbered sequentially with Arabic numerals (1, 2, 3, etc.) starting at 1.	✓
Page numbers in the main body of an assignment should be typed in Arial, 10 pt. font; should appear in the bottom margin; should be centred horizontally (from left to right) on the page; and should be typed between hyphens.	✓
6.3 Headings	
<p>Are all headings formatted and numbered correctly?</p> <ul style="list-style-type: none"> • First-level headings should be in bold, UPPER CASE, 14 pt. font. • Second-level headings should be in bold, UPPER CASE, 12 pt. font. • Third-level headings should be in bold, sentence case, 12 pt. font and the words of the heading (not the heading number) should be <u>underlined</u>. • Fourth-level headings in bold, sentence case, 12 pt. font and the words of the heading (not the heading number) should be in <i>italics</i>. • All headings, except the heading for the ABSTRACT, should be numbered. • The heading of the list of references should be formatted as a numbered first-level heading. • No heading numbers should be indented away from the left-hand page margin. • All headings should be justified. • No heading should have a full stop at the end. • Avoid colons, semi-colons and hyphens in the wording of headings. 	✓

TECHNICAL CARE	✓ or ✗
<p>Leave a blank line open <u>before and after</u> all headings. However, when one heading follows directly after another (with no body text in-between), there should <u>not</u> be a blank line open between the consecutive headings. Leave a blank line open before the first and after the last heading.</p>	✓
<p>Are all the headings concise, but still clearly descriptive of the content of their respective sub-sections? (Avoid headings longer than two lines as well as single word or very brief headings)</p>	✓
<p>Check that the wording of each heading clearly describe the content of the specific section.</p>	✓
<p>Do not start each major section of an assignment (i.e., each section with a first level heading) on a separate page. Each major section of an assignment should follow directly after the preceding one on the same page.</p>	✓
<p>Are there any instances where headings appear on their own at the bottom of a page (i.e., with no body text following directly after the heading)? Move such headings to the top of the next page.</p>	✓
<p>Do the wording and numbering of headings in the text correspond with the heading wording and numbering in the Table of Contents?</p>	✓
<p>6.4 Text and paragraph formatting</p>	
<p>Have you consistently used Arial, 12 pt. font for the body text of your document?</p>	✓
<p>Have you consistently used 1.5 line spacing in the main body of the document, <u>except inside tables</u>? Use <u>single</u> line spacing inside all tables.</p>	✓
<p>Justify all the paragraphs in the body text (excluding paragraphs in tables) and list of references using the  icon in the “Paragraph” group of the “Home” tab in Word.</p>	✓
<p>Do all the sentences in a paragraph follow one directly after the other? Each new sentence inside a paragraph should not start on a new line. In other words, there should be no hard line breaks inside paragraphs.</p>	✓
<p>Check that all paragraphs end in a full stop or other appropriate punctuation mark.</p>	✓
<p>Leave a <u>single</u> blank line open between all paragraphs by pressing the Enter key twice at the end of each paragraph. Do not use paragraph spacing (e.g., 10 pt spacing after a paragraph) to distinguish between paragraphs.</p>	✓
<p>6.5 Tables and figures</p>	
<p>Have you included a sentence or paragraph before each table/figure to introduce the table/figure to the reader? The introductory sentence/paragraph should contain a specific cross-reference to the table/figure (e.g., As is shown in Figure 1 below ...) All cross-references to tables/figures should start with a capital letter (e.g., Different definitions of the construct locus of control are summarised in Table 2 on p. 18.)</p>	✓
<p>Have all tables and figures been supplied with unique captions (located <u>above</u> each table or figure)?</p>	✓
<p>Are the wording of all the table/figure captions concise, but still clearly descriptive of the specific table/figure? (Avoid captions longer than two lines as well as single word or very brief captions.)</p>	✓

TECHNICAL CARE	✓ or ✗
Do the wording of the figure/table captions listed in the List of Figures and List of Tables correspond a 100% with the corresponding captions used in the text?	✓
<p>Check that all table/figure captions are formatted correctly:</p> <ul style="list-style-type: none"> • Follow the steps on p. 41 or p. 65 of the technical care requirements to insert a numbered table/figure caption. • Use the “Caption” style in the Styles window of the Home tab in MS Word to format all captions. • All table/figure captions should be typed in bold, Arial, 10 pt. font. • Leave a blank line open <u>before</u> a table/figure caption. • Do <u>not</u> leave a blank line open after a table/figure caption and before the subsequent table/figure. • Add a colon and tab character after the table/figure number at the start of a table/figure caption and before the caption wording. For example: Table 1: The ... • Use sentence case for the wording of all table/figure captions. • A table/figure caption should not end in a colon, semi-colon, comma or full stop. • Avoid the use of colons or semi-colons inside the wording of a table/figure caption. • Do <u>not</u> leave a blank line open between a caption and the table/figure, but add a 4 pt. paragraph spacing after the caption to prevent a squashed-in look. 	✓
<p>Are all tables and figures numbered correctly?</p> <p>Tables and figures should be numbered independently and sequentially starting from 1. Do not include section/chapter numbers in the numbering of tables/figures. The numbers of tables/figures in appendices should continue sequentially from the numbers used in the main document.</p>	✓
<p>Where necessary, have all tables and figures been supplied with correct source references situated below the table or figure?</p> <p>The source references should be formatted as follows:</p> <ul style="list-style-type: none"> • The source reference below a table/figure should be in 10 pt. font with a 4 pt. paragraph spacing before the reference to separate it from the table/figure. • Use the “Table/Figure source ref” style in the Styles window of the Home tab in MS Word to format the source reference. • The word “<u>Source</u>.” should be underlined, but not the colon. • Use the same format for the references as you would in an in-text citation where the authors are listed as part of the sentence. • Multiple sources are listed in the same order in which they appear in the list of references and are separated by semi-colons. • The source reference should end with a full stop. • Where necessary, use the words “Adapted from” to indicate that the table/figure was changed from the original source. • It is not necessary to add a source reference to a table/figure based on information that you have generated yourself (e.g., a table/figure based on analyses of your own data). 	✓

TECHNICAL CARE	✓ or ✗
<p>Have all tables/figures been formatted correctly based on the following requirements?</p> <p><u>Tables and figures:</u></p> <ul style="list-style-type: none"> • A table/figure may not overlap with or extend into the left or right page margins, but should fit between the specified margins. • Do not copy and paste tables or figures directly from PDF documents into an assignment as this may constitute plagiarism. Rather compile your own version of the table/figure by adapting the original version. • Tables/figures copied from an original document also often have a poor resolution and should rather be retyped or redrawn. <p><u>Figures:</u></p> <ul style="list-style-type: none"> • Place a border around all figures. • It is best to draw figures in MS PowerPoint and to then insert the PowerPoint slide into your Word document. This will allow you to draw neater figures than if you used the “Drawing Canvas” in MS Word. • Figures/graphs/diagrams copied from PDF files often do not have a clear resolution and should rather be redrawn in PowerPoint and then inserted into MS Word. <p><u>Tables:</u></p> <ul style="list-style-type: none"> • Use single line spacing inside tables. • The column headings in the first row of a table should preferably be typed in bold and should be centred vertically (from top to bottom) and horizontally (from left to right) in their respective cells. • The contents of a table may be printed in a smaller font size (e.g., 11 pt or 10 pt), but use the same font size consistently in all tables. • If a table breaks across one or more pages, the header row (i.e., the row containing the column headings) should be repeated at the top of each page. • All textual (non-numeric) entries in table cells should either consistently be left-aligned or justified. Numeric entries may be centred or right-aligned. 	✓
<p>6.6 Bulleted / numbered lists</p>	
<p>Do all the bulleted / numbered lists in the document comply with the requirements outlined in Section 15 of the technical care requirements?</p> <ul style="list-style-type: none"> • Use the “List: Bulleted” or “List: Numbered” styles in the Styles window of the Home tab to format all bulleted lists and numbered lists. • There should <u>not</u> be a blank line open after the stem sentence (ending in a colon) and before the first bulleted point in a bullet list. • Bulleted/Numbered points should <u>not</u> be indented away from the left-hand page margin. • Add a 4 pt. paragraph spacing before all bulleted/numbered points to prevent a squashed-in look. • Do not place a bulleted/numbered list inside a paragraph. Leave a single blank line open after the last bulleted/numbered point and any subsequent body text. • Numbered lists should have the same basic format as bulleted lists. Use the “List: Numbered” style to format numbered lists. 	✓

TECHNICAL CARE	✓ or ✗
6.7 Spelling, grammar, punctuation and sentence construction	
Have you checked the whole document for spelling and grammatical errors using the "Spelling and Grammar" function in MS Word?	✓
Have you, as far as possible, used an impersonal, neutral and formal writing style with as few self-references to "I", "we" or to "the researcher" as possible.	✓
There should be <u>no</u> contractions (e.g., don't, won't, shouldn't) in the document. Write contracted words out in full.	✓
Have you used abbreviations correctly? See Section 9.2 of the technical care requirements for guidelines in this regard. When you introduce an abbreviation for the first time, write the word out in full with the abbreviation thereafter in round brackets. For example: Supply chain management (SCM) is defined as ...	✓
There should be <u>no</u> instances of etc. or et cetera in the document.	✓
The abbreviation <i>et al.</i> , should always be typed in italics.	✓
Have you consistently used only <u>one</u> method of emphasising (<i>italics</i> , or bold or <u>underlining</u>) throughout the assignment?	✓
Have you consistently rounded off all decimal values in the assignment to two (2) or three (3) decimal points?	✓
Have you used numbers correctly based on the requirements outlined in Section 14 of these guidelines? No sentences should start with numbers written in numeric format. Re-write such numbers in words (e.g., Twenty-two percent of the respondents ...) The numbers 0 to 9 should be written out in words in all sentences except when you are referring to a specific section, table or figure. For example: As indicated in Table 2, four males and 13 females participated in the study.	✓
Are the sentences in your assignment not perhaps too long? Sentences running over three lines are often too long and are usually difficult to read.	✓
Have you made any "sweeping" or unsubstantiated statements in your writing, such as "there is no literature available on this topic" or "this research will contribute to the body of knowledge"?	✓
Are all statements of fact in your document supported by appropriate in-text citations?	✓
Are all direct quotations enclosed in double quotation marks and supported by an in-text citation? Check that all direct quotations have double quotation marks at both the start and the end of the quotation. All direct quotations should be supported by an appropriate in-text citation.	✓

TECHNICAL CARE	✓ or ✗
<p>Check that you have used ellipses correctly in direct quotations:</p> <ul style="list-style-type: none"> • An ellipsis consists of three full stops (...) only. • If an ellipsis follows directly after or before a quotation mark, there should be no space between the quotation mark and the ellipsis. • There should, however, be one space open after the ellipsis and before the first word at the start of a direct quotation. Similarly, there should be one space open after the last word and before the ellipsis at the end of a direct quotation. • If an ellipsis occurs in the middle of a sentence, one should leave a single space open before and after the ellipsis. 	✓
<p>Check the following in your cross-references to sections, tables figures and/or appendices:</p> <ul style="list-style-type: none"> • When referring to a numbered table, figure or section or to a specific appendix, the words Table, Figure, Section or Appendix always starts with a capital letter (e.g., The questionnaire is included as Appendix A.) • Include page numbers in the cross-reference if the table, figure or appendix is located on a different page. For example: “As is shown in Figure 1 (p. 12) ...” or “Various definitions of the construct alienation are summarised in Table 3 (p. 11). • Use p. to refer to a single page and pp. to refer to a page range. A page range should be indicated as pp. 3-6 with no blank spaces before/after the hyphen. 	✓
7. Referencing	
7.1 In-text references (citations)	
<p>Are all the sources listed in in-text references (citations) included in the list of references (and <i>vice versa</i>)?</p>	✓
<p>Have you included page numbers in all in-text references to sources where page numbers appear in the original source you consulted? This is also applies when you are citing a journal article as a whole.</p> <p>Include page numbers when citing journal articles downloaded in PDF format, hard copy books, documents downloaded from the Internet that contain page numbers, and any other sources that contain page numbers in the version that you have read.</p>	✓
<p>Check that you have a comma after the in-text citation when a sentence starts with “According to ...”. For example: According to Smith and Jones (2012:12), ...</p>	✓
<p>Check your in-text citations for the following frequent errors:</p> <ul style="list-style-type: none"> • There should be no space open after the colon and before the page numbers in in-text citations. • Have you used the abbreviation <i>et al.</i> correctly? See Points 15 and 16 on p. 10 of the referencing guidelines. • The abbreviation <i>et al.</i> should always be typed in italics and should end in a full stop. • When multiple sources are cited together in the same in-text citation, the sources should be listed in the same order in which they appear in the list of references, alphabetically based on the surnames of the first authors. See Section 6.2.3 on p. 18 of the referencing guidelines. • Citations at the end of sentences should appear before the full stop at the end of the sentence. 	✓
7.2 List of references	

TECHNICAL CARE	✓ or ✗
Have you formatted the EndNote bibliography correctly? See Point 22 on pp. 22-23 of the referencing guidelines.	✓
Convert all EndNote fields in the final version of your document to plain text before submitting the document for evaluation.	✓
The list of references should be placed on a separate page after the main body of the document and before any appendices.	✓
The heading “ LIST OF REFERENCES ” should be <u>numbered</u> and should be <u>formatted as a first-level heading</u> .	✓
Leave a blank line open after the heading “ LIST OF REFERENCES ” and before the first entry in the list of references.	✓
Use 1.5 line spacing in the list of references.	✓
The entries in the list of references should be sorted alphabetically based on the surname of the first author of each source. Entries in the list of references should <u>not</u> be numbered or bulleted.	✓
All the entries in the List of References should be justified.	✓
All entries in the List of References should have full stops at the end.	✓
Leave blank lines open between the entries in the List of References.	✓
Removed all active hyperlinks from entries in the List of References.	✓
Wrap all hyperlinks in the List of References to remove blank spaces. Point 5 on p. 35 of the referencing guidelines.	✓
Have you checked the entries in the list of references against the general requirements outlined in Section 5.1 and 6 of the referencing guidelines?	✓
Have you checked each entry in the list of references against the specific requirements that apply to that source type as are outlined in Section 8 of the referencing guidelines?	✓
<p>Check all the entries in the list of references for the following frequent errors:</p> <ul style="list-style-type: none"> • The names of journals (e.g., <i>Journal of Management</i>,) should be typed in Title Case, <i>italics</i> and should be followed by a comma. • The titles of journal articles, books and the titles of all other sources should be in <u>sentence case</u>. • The titles of all sources, except journal articles, should be in italics. See the examples in the referencing guidelines. • When citing a journal article, give the volume, issue number and the full page range in the required format. For example: 12(2):23-45. • When citing online sources (except journal articles), include: [Online] Available from: URL [Accessed: YYYY-MM-DD]. for all entries. See the referencing guidelines. 	✓
8. Appendices (Where applicable)	
Do all the appendices have appropriate descriptive titles?	✓
Are the pages of all the appendices numbered sequentially up to the last page?	✓
Have all the appendices been tagged / "flagged" in the prescribed manner to facilitate cross-referencing? See Section 16 of the technical care requirements.	✓

TECHNICAL CARE	✓ or ✗
Where required, have you included a CD/DVD with an electronic copy of your document in the prescribed manner?	✓
Are all the appendices included in the Table of Contents with their correct page numbers?	✓
9. General technical care	
Have you removed all Comments and Tracked Changes from the document?	✓
Have you removed all instructions in blue and all warning messages in red from the document without deleting any of the section breaks?	✓
For hard copy submissions: Have all pages printed correctly? Check the document for missing pages, duplicate pages, blank pages and for pages that are skew.	✓
10. File name	
Have you used the prescribed file name? See the instructions at the start of this document under "Submission instructions".	✓
11. Binding	
For hard copy submissions, have you ring-bound the document <u>between plastic covers</u> ?	✓

We hereby certify that we have checked this thesis against the requirements outlined in this checklist: