

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

by

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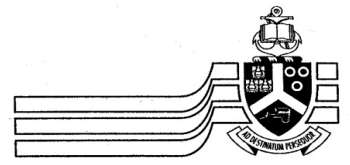
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## EXECUTIVE SUMMARY

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

The primary objectives of the study are to:

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

The secondary objectives of this study are to:

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

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

#### Methodology:

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

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

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

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

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

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

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Gloria in Excelsis Deo

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