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Learning from Failure in the Context of Business Rescue

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ABSTRACT

Understanding learning from failure in the context of business rescue will provide both the manager and the business rescue practitioner with insight in to how to maximise learning and thereby decrease the possibility of similar failures in the future.

This study aims to explore the extent to which learning from failure can be better understood in the context of business rescue with relevance to how the learning from failure differs based on each stage of the business rescue process.

A two phased qualitative approach based on grounded theory was utilised where interviews with business managers were conducted followed by interviews with business rescue practitioners. As a result of the inductive approach followed, a model was created relative to how learning from failure can be enabled.

The research established that learning from failure does take place and that it is influenced by a number of factors. To this end the research resulted in the creation of a Preconditions to Learning Model, which can be used in future business rescue work to ascertain if learning from failure can be enabled given the existence of the preconditions.

KEYWORDS

Learning from failure

Business rescue

Business rescue practitioner

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Mr Corné M Janse van Rensburg

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CHAPTER 1: INTRODUCTION

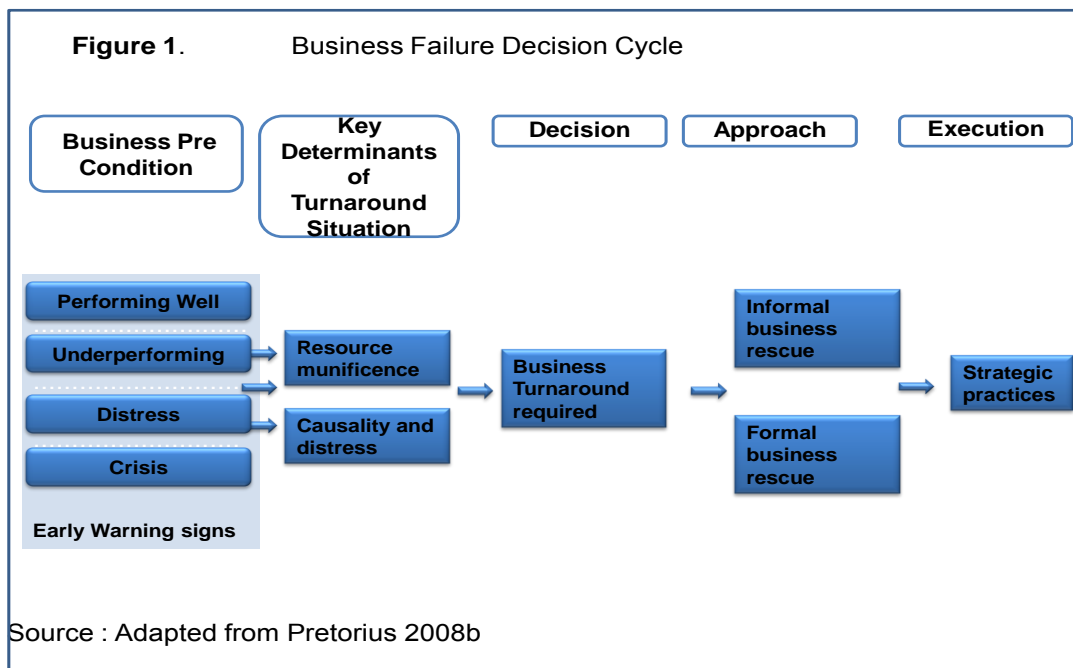
1.1 Introduction

Over the past 10 years, on average of 1,693 companies and 1,854 Closed Corporations have gone under liquidation on an annual basis according to Statistics South Africa (2012). What makes this high number alarming is that it does not take into account the number of businesses that merged with others to avoid bankruptcy. Factors that contribute to a concern about the high failure rate is that South Africa also has an unemployment rate of 25% (Statistics South Africa (2012)). To create jobs and to grow the economy it is essential that businesses stay in business.

Government, realising the seriousness of the situation, promulgated act 128 (1) of the Companies Act 71 of 2008 – relating to business rescue. The purpose of this act was to enable business turnaround through the implementation of a business rescue process, with the help of a business rescue practitioner.

Although leaders in the field of business failure such as Cannon and Edmondson (2005), Pretorius (2008a, 2008b, 2009) and Holtzhauzen (2011) have conducted extensive and meaningful research in order to advance the understanding of business failure.

Pretorius (2008b) in his article aptly named: “When porter’s generic strategies are not enough: complementary strategies for turnaround situations” (p. 19) suggested complementary approaches to dealing with turnaround situations as well as the strategic practices that would support these strategies. It is this work that provides a framework for understanding the complexities involved in the process of business rescue with relevance to the business failure decision cycle. The study will aim to understand how learning from failure can be better understood in the context of this cycle.



Learning-from-failure theorists such as Sitkin (1992), Mc Grath (1999), Cannon (2005) and Sheppard (2005) have done ground-breaking work in understanding the elements that impact learning from failure as well as how to learn from failure by understanding the biases that exist as a result of it.

The opportunity now exists to research the learning from failure gained as an organisation moves through the broad stages of business decline to requiring business rescue to achieving business turnaround. Understanding how the theory of learning from failure can be applied to the South African context, (one in which the formal process of business rescue was only assented to on 8 April 2009) will help provide the business community with an opportunity to utilise learning from business rescue to ensure that we not only learn from failure but also shape the business rescue process to enable less failure in the future.

This study then has as its aim to research the extent of learning from failure achieved through the process of business rescue.

1.2 The Context of the problem

In order to learn from failure one first has to identify the failure event and then search for the learning that arose as a result of that event. Business rescue then is for the purpose of this research that event. Business rescue however is the result of a process that starts with business failure and aims to end in business turnaround

In order to address the problem of business failure, the concept first has to be defined. Shepherd (2005) defined business failure as occurring when a fall in revenues and / or a rise in expenses are of such a magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding; consequently, it cannot continue to operate under the current ownership and management.

Business turnaround is seen to have taken place or the business to be a turned - around business if the organisation has experienced three consecutive years of moderately poor and / or very poor performance and then managed to show sustained very high or moderately high performance relative to economy-wide and industry compatriots, measured by three consecutive years of profitability (Wild, 2010).

The process used to move from a failed business to a turned around business for the purposes of this study is then a formal business turnaround route called business rescue as defined by section 128 (1) of the Companies Act 71 of 2008. It is not informal business rescue or Bolton's London approach which has as its main application in the banking industry where informal business groups such as the creditors meet and attempt to restructure business debt. Business rescue is as Section 128 (1) of the Companies Act 71 of 2008 defines it as:

“Meaning proceedings to facilitate the rehabilitation of the company that is financially distressed by providing for:

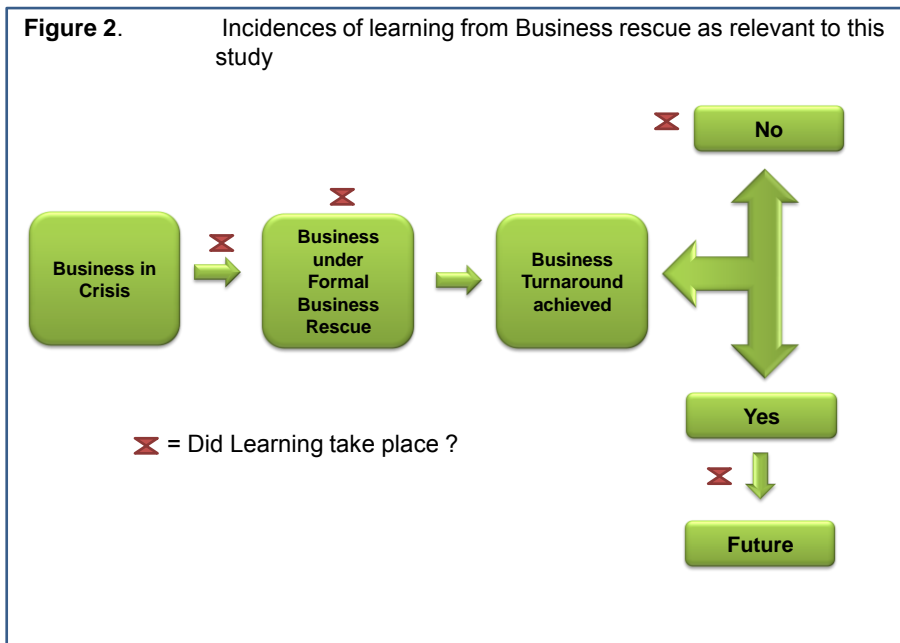
- i. The temporary supervision of the company and of the management of its affairs, business and property;
- ii. A temporary moratorium on the rights of claimants against the company or in respect of property in its possession; and
- iii. The development and implementation, if approved of a plan to rescue the company restricting its affairs, business property, debt and other liabilities and equity in a manner that maximises the likelihood of the company continuing in existence on a solvent basis or, if it is not possible for the company to so

continue in existence, results in a better return for the company’s creditors or shareholders than would result from the immediate liquidation of the company” (The Companies Act, 2008, p. 230).

For the purpose of this study, business rescue is defined as the mechanism that enables businesses to move from failure situations into turnaround situations (Pretorius, 2008a). Cognisance needs to be given here that turnaround might constitute liquidation (albeit not immediate) as stated in section iii of the Act.

It stands to reason that for a business to move from failure into turnaround through a practice of business rescue that learning would have taken place in order to move from a declining business to a growing business. Pretorius (2008a) proposed a framework for categorising the variables of business failure into four sub-domains namely: signs and predictions; causes and preconditions; recovery; and cognition and learning.

The focus of this study is to investigate the level of learning (as it pertains to Pretorius’ fourth sub domain of cognition and learning) that took place prior to, during and after the institution of business rescue in order to understand the role of learning from failure, as illustrated in figure 2.



1.3 Why is learning from failure important?

Understanding what learning was taken from previous failure as well as how the location of the cause of the failure impacts learning, if learning during the phases of business rescue is different and whether or not the learning generated is applied in later situations will allow us to enhance the possibility of future learning from failure.

Scholars have investigated the process of business rescue. The impact on the economy if learning can be increased in the process will be immense.

Learning from failure not only enhances the existing business managers' knowledge, but also reduces uncertainty in terms of what actions will enable success in failed organisations.

If a model can be created that would identify the required precondition needed to ensure learning from failure can take place, it would decrease future failures of the same nature.

1.4 The Objective of the research

1. Explore what the manager has learnt at each stage of the business failure life cycle, be it before, during or after the implementation of the business rescue process. Refer to figure 2.
2. Determine what knowledge was gained prior to, during and after business turnaround.
3. Establish if the learning that took place was applied to future ventures

1.5 The Scope of the research

Research will be conducted on firms that have undergone business rescue. The principles of learning will be looked at from the perspective of the individual who was at the helm of the organisation and given the diverse nature of titles relative to industry and company size will be referred to as the manager. Focus will be placed on what these managers have learnt from failure prior to, during and after having gone through the process of business rescue. Insight into what constitutes learning relative to each individual's perception of learning will not be derived.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

The theory review elaborates on the two major constructs of this research, namely Business rescue and learning from failure. The reason for using business rescue as a starting point is that it allows for a failure event to be identified after which time the learning from that event can be analysed. Business rescue will be reviewed by looking at the constructs of business rescue as well as the processes and associated timelines. Learning from failure will be reviewed by first understanding the concept of learning from failure and then analysing how learning from failure is affected relevant to when it takes place in the business rescue process i.e. prior to, during or after.

2.2 The Conceptual Framework of Business Rescue

South African business as well as its stakeholders were in dire need of business rescue legislation, which for the first time in the South African context included the process of business rescue as well as the appointment of a turnaround manager (Pretorius & Holtzhauzen, 2008). While the Companies Act 46 of 1926 served as the statutory corporate rescue procedure, it was not effective in situations where the going concern would have been better served by continuing its operation, as it led to business in financial distress more often than not being liquidated without any rescue attempt (Lamprecht, 2010).

The Companies Act, 71 of 2008 was assented to on 8 April 2009 and has as its aim the creation of a process that would allow for the turnaround of businesses when feasible, or then the liquidation of the assets in a manner that allowed for realising more financial benefit than would have been the case in outright liquidation. Business rescue should also be seen as a formal process within a legislative framework which follows failed management-lead correction and failed informal creditor workout (Holtzhauzen, 2011).

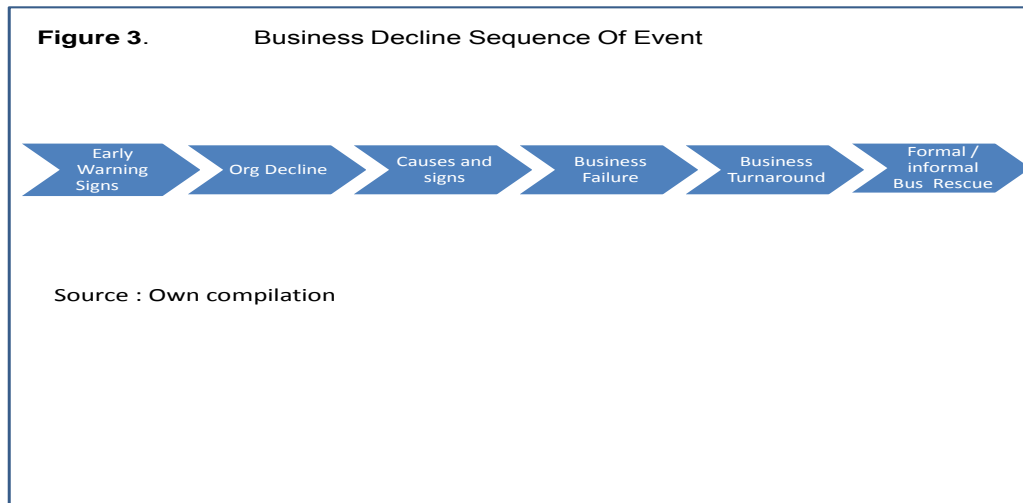
2.2.1 Business turnaround - a multifaceted intervention

In order to understand business failure and more particularly the process of formal business rescue in the context of business turnaround one first needs to take cognisance of where in the business failure life cycle each of these constructs lie. Understanding the actions that had to have taken place prior to the process of business rescue will contextualise not only the mindset of the organisation but also the learning framework within which the business and its management found itself at the point of going under business rescue.

Figure 1 provides a summary of the business failure decision cycle as adopted from Pretorius (2008b). His work on understanding the key determinants of the turnaround situation, what strategies to employ in each situation as well as which strategic practices will serve as enablers to the strategy to ensure turnaround, provides the basis from which to better understand business failure.

2.2.2 Business decline sequence of events

Business rescue implies that an organisation requires rescue from a current or possible future event. This section highlights the cycle that an organisation would typically go through prior to requiring business rescue i.e. there are early warning signs (Cannon & Edmondson, 2005). Indicators of organisational decline - these causes or signs, if unremedied - lead to business failure and therefore require business turnaround through the process of either formal or informal business rescue.



2.2.2.1 *Early warning signs theory*

Early warning signs are defined by Cannon and Edmondson (2005) as “small failures (such as small everyday organisational mistakes) which go unnoticed and as a result causes catastrophic failures” (p. 303), as they are not deemed to be worthy of being assessed. As a result of how small these failures are, many a business leader will ignore these signs which could lead to larger level organisational decline.

2.2.2.2 *Organisational decline*

Cannon and Edmondson (2005) and Pretorius (2008b) identified that organisational decline takes place in phases or that as Pretorius calls it, businesses have certain “preconditions” (p. 23) by which one can recognise varying levels of organisational decline. These phases can be given a number of different names, however, the turnaround situation and its unique precondition configuration model as used by Pretorius provides a succinct and logical flow of the phases of business failure.

Pretorius embarked on a study to provide the body of knowledge with a succinct definition of the failure phenomenon so as to aid compatibility in research outputs. His study provides the following as a definition of decline: “A venture is in decline when its performance worsens, (decreasing resource slack) over consecutive periods and it experiences distress in continuing operations. Decline is a natural precursor in the process of failure” (Pretorius, 2009, p. 10).

2.2.2.3 Causes and signs of organisational decline

Bruno and Leidecker (1988) reviewed reasons for business decline and failure between the 1960s and 1980s and indicated that while the failure can be understood through analysis it does not identify the causes of decline. Bruno and Joel thus went further than the financial indicators of decline and identified the following as possible reasons for business decline:

- Product design
- Initial undercapitalization
- Inappropriate distribution or selling strategies
- Unclear business definition
- Overreliance on one customer
- Assuming a debt instrument too early
- Problems with venture capital relationships
- Ineffective teams
- Social / cultural factors
- One track thinking

McRann (2005) identified the following signs that indicate that businesses are in decline:

- Declining sales
- Reduced market penetration
- Failing profit margins
- Thin earnings before income taxes
- High employee turnover rates
- Increasing customer complaints
- High levels of employee dissatisfaction and defection

Mellahi and Wilkinson (2010) added to these signs the following:

- Market share erosion
- Persistent low or negative profitability
- Shrinking critical resources - that is financial, human, and technological resources and or loss of legitimacy

2.2.2.4 Business failure

Chowdhury and Lang (1993) in their study on crisis decline and turnaround mentioned that managers should act in advance to measure declining performance prior to getting to business failure. They indicated that managers should act against declining performance and that these actions require:”1) Accurate attribution of causes; 2) timely action and 3) adequate resource to affect a turnaround” (p. 15). The final point regarding resources links in with the Pretorius (2008b) turnaround situation model, (see figure1) in that he too sees resource munificence as a key determinant of how the turnaround situation will be played out.

Shepherd (2003) defined business failure as occurring when a fall in revenues and / or a rise in expenses are of such a magnitude that the firm becomes insolvent and is unable to attract new debt or equity funding; consequently, it cannot continue to operate under the current ownership and management.

Cressy summarised failure as “when the firm’s value falls below the opportunity cost of staying in business” (Cressy, 2006, p. 103).

Pretorius defined business failure as follows: “A venture fails when it voluntarily becomes unable to attach new debt or equity funding to reverse decline, consequently, it cannot continue to operate under the current ownership and management. Failure is the endpoint at discontinuance (bankruptcy) and when reached, operations cease and judicial proceedings take effect” (Pretorius, 2009, p. 10).

Mellahi and Wilkinson proposed that: “businesses fail when its ability to compete deteriorates as a consequence of actual or anticipated performance below a critical threshold that threatens its viability” (Mellahi & Wilkinson, 2010, p. 533).

2.2.2.5 Business turnaround

Pretorius defined business turnaround as: “A venture has been turned around when it has recovered from a decline that threatened its existence to resume normal operations and achieve performance acceptable to its stakeholders (constituents)

through reorientation of positioning, strategy, structure, control systems and power distribution. Return to positive cash flow is associated with achievement of ‘normal operations’ (Pretorius, 2009, p. 11).

Business turnaround is seen to have taken place or the business to be a turned around business if the organisation has experienced three consecutive years of moderately poor and / or very poor performance and then managed to show sustained very high, or moderately high performance relative to economy-wide and industry compatriots, measured by three consecutive years of profitability (Wild,2010).

The turnaround process is required if the business has shown early warning signs of decline which was not dealt with adequately. The turnaround process now requires the manager to determine if there is value in turning the business around or if it should be liquidated. If the decision is taken to follow a turnaround strategy, it is followed by a decision choosing between formal and informal business rescue.

2.2.2.6 *Informal business rescue*

Informal creditors workout or the London approach, as Bolton (2003) refers to it, consists of informal consortia of banking institutions who meet in an attempt to restructure the business in distress’ debt, which could involve a temporary stay on bank debt or a pro rata debt forgiveness also referred to as a “hair-cut”.

2.2.2.7 *Formal business rescue*

A formal business rescue would be in line with Section 128 (1) of the Companies Act 71 of 2008. The Act defines business rescue as: “meaning proceedings to facilitate the rehabilitation of the company that is financially distressed by providing for:

- i. The temporary supervision of the company and of the management of its affairs, business and property;
- ii. A temporary moratorium on the rights of claimants against the company or in respect of property in its possession; and
- iii. The development and implementation, if approved of a plan to rescue the company restricting its affairs, business property, debt and other liabilities

and equity in a manner that maximises the likelihood of the company continuing in existence on a solvent basis or, if it is not possible for the company to so continue in existence, results in a better return for the company's creditors or shareholders than would result from the immediate liquidation of the company”.

For the purpose of this study, business rescue is defined as the mechanism that enables businesses to move from failure situations into turnaround situations (Pretorius, 2008b). The turnaround situation includes the broader sense of business rescue as defined in the Companies Act as including liquidation after the appointment of a business rescue practitioner.

Of particular interest to this study, in order to segment learning prior to, during and after business rescue, is the distinction between when business rescue starts and when it ends. For this purpose, section 132 (1) of the new Companies act is very clear as to when Business rescue begins and when it ends “business rescue proceedings begin when the company files a resolution to place itself under supervision in terms of section 129 (3); or applies to the court for consent to file a resolution in terms of section 129 (5) (1); a person applies to the court for an order placing the company under supervision in terms of section 131 (1), or during the course of liquidation proceedings, or proceedings to enforce a security interest, a court makes an order placing the company under supervision” (The Companies act, 2008, 30).

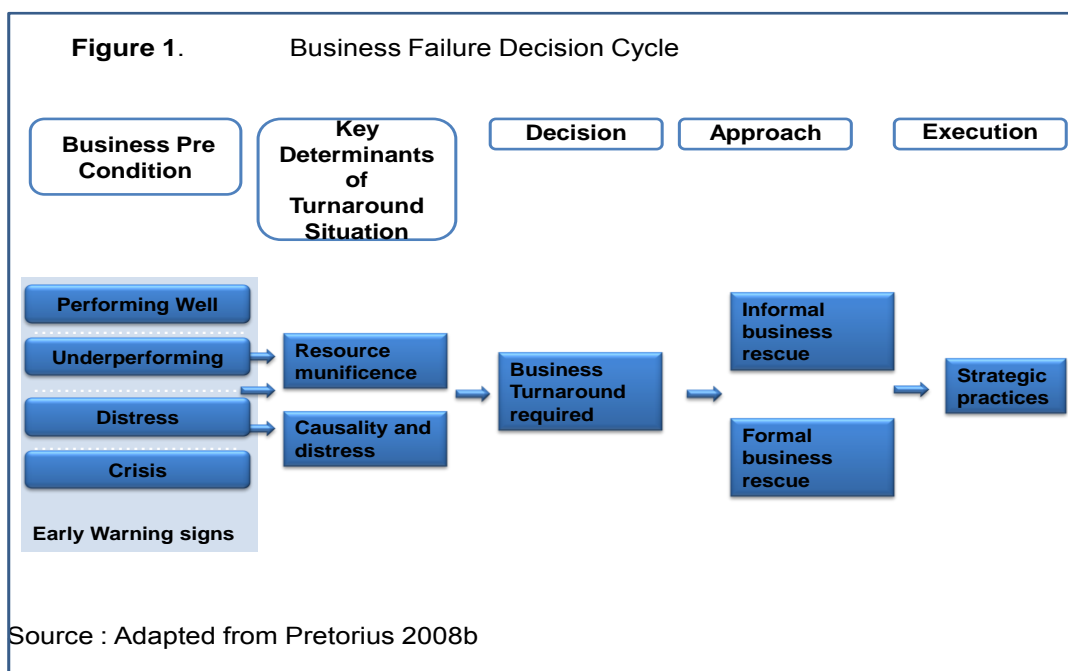
Business rescue is inferred by section 132(2) to have ended when the new plan has been substantially implemented.

Now that the sequence of events has been clarified the attention needs to be shifted to the decisions that are made within the business failure cycle as these decisions will have been made as a result of learning from prior failures.

2.2.3 The business failure decision cycle

Turnaround modelling has evolved in its complexity and scope on a local and international level. Seminal research has been conducted by Pretorius to the extent that he achieved international acclaim in 2006 when he presented his theory on

business failure at the Babson Entrepreneurial Conference. This research will be grounded in the Pretorius (2008b) model of turnaround situations and their unique preconditions matrix. The model was designed to provide complementary approaches to dealing with turnaround situations as well as indicating which strategic practices would support these strategies. This work provides a framework for understanding the complexities involved in the process of business rescue with relevance to the decisions that have to be taken during the process, therefore it is termed the business failure decision cycle.



2.2.3.1 *Business preconditions*

According to Pretorius (2008b) a precondition refers to a condition that must exist in order for a certain set of possibilities to become realities. Due to the complex nature of preconditions they are sometimes described in terms of metaphors, as is the case in the work of Richardson, Nwankwo and Richardson (1994) where they use frog analogies as metaphors to describe the specific preconditions that would lead to each type of failure in different size organisations. They distinguish between the “boiled frog: introversion and inertia in the face of environmental change, the drowned frog: where loss of focus decreases the competitive advantage; the bullfrog: where money is spent on non-essential goods and services which could have been used more effectively if not to establish the image of the organisation and its management and lastly, the

tadpole, which refers to a start-up which never realises its potential” (Richardson, Nwankwo & Richardson, 1994, p. 11).

Preconditions for failure are relevant to understanding decline as it allows for the understanding of what causes (warning signs) would be in place and would lead to the subsequent stage of failure / turnaround.

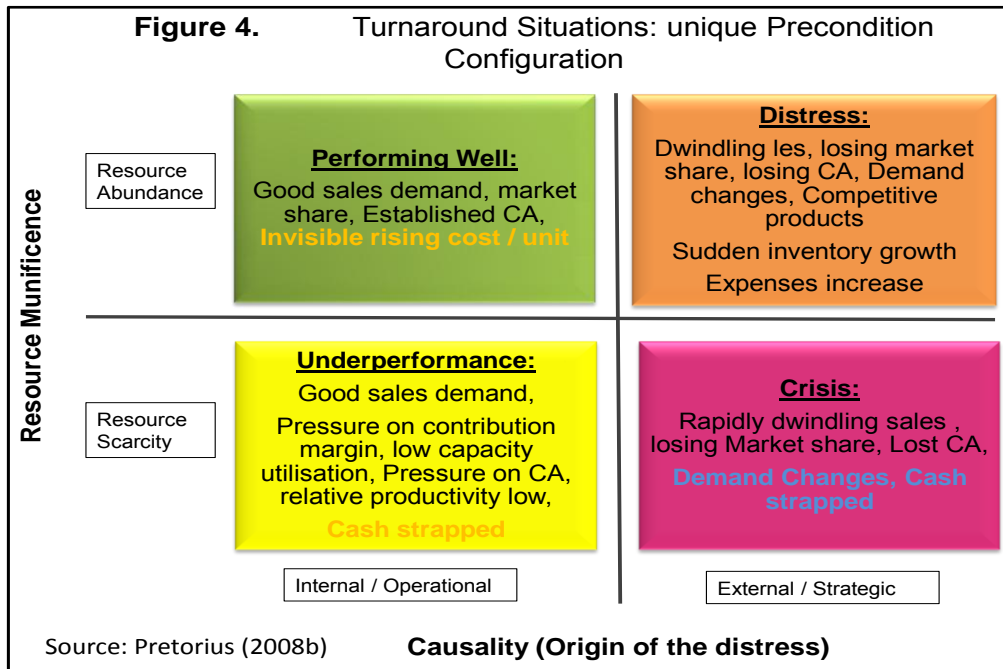
According to Pretorius (2008b) the literature regarding preconditions can be summarised as follows:

- “Preconditions exist because decline and failure cannot be ascribed to a single cause and depend on a set of complex causal configurations making up each unique situation;
- The severity of the preconditions compound as decline progresses over time towards failure;
- Preconditions determine and are determined by the magnitude of the decline and hence, govern the success of the potential recovery (turnaround)” (P15).

Pretorius (2008b) endeavoured to answer three questions through his research:

- 1) “What are the key determinates of the turnaround situation?
- 2) What complementary strategy would result in a turnaround of each situation?
- 3) What strategic practices support the different complementary strategies” (p. 19)?

Pretorius summarised his research findings in a matrix depicted in figure 4. The matrix consists of four cells or preconditions within which the business finds itself and which in turn impacts the extent to which, as well as which strategies will be used to best effect, to provide business turnaround. With resource munificence on the one axis and causality (origin of stress) on the other.



Each cell or precondition is defined as follows:

Performing well: There is no need for turnaround - has abundance of resources and can operate as it has good sales volumes and has a competitive advantage.

Turnaround practice: Growth strategy.

Underperforming: The preconditions in this cell are characterised by scarce resources and weak internal operations. There is low capacity and increasing debtors' days.

Turnaround strategy: Efficiency strategy.

Distress: Here, the organisation has abundant resources, but experiences declining sales due to loss of competitive advantage. Because the venture has abundant resources the management is not actively searching for the real cause of the problem.

Turnaround strategy: Forced repositioning strategy.

Crisis: Decline turns into crisis if the incorrect strategies are followed. Resources in this cell are scarce and cash levels are decreasing as a result of the decrease in sales.

Turnaround strategy: last resort / combination strategy.

Pretorius (2008b) pointed out that each turnaround situation demands a unique strategy, supported by specific practices.

The preconditions that exist will be accompanied by early warning signs indicating that situations exist within the organisations that should be addressed in order to ensure the preconditions do not worsen, moving the organisation from performing well to crisis.

These early warning signs would need to be understood in order to better understand the decision cycle associated with Business rescue.

2.2.3.2 *Early warning signs theory*

Early warning signs are defined by Cannon and Edmondson (2005) as “small failures which go unnoticed and as a result of this, cause catastrophic failures” (p303) as they are not deemed to be worthy of being assessed. It is as a result of how small these failures are that many a business leader will ignore these signs, which could lead to larger level organisational decline.

This school of thought holds that the sooner the early warning signs can be detected and acted upon, the more successful the turnaround will be. In support of this theory Holtzhauzen (2011) conducted a study in 2010 to obtain further insight into early warning signs by identifying verifier determinants, which could be used to ensure that the appropriate action is taken. Holtzhauzen explains verifier determinants and the sequence of events as follows: “when a business starts to decline in performance, early warning signs change from being invisible to becoming visible, because of their mostly qualitative nature. The application of verifier determinants is used to confirm the veracity of the early warning signs – at the same time reducing the period of turnaround and its effect on the decline. Later, the verifier determinants can inform the turnaround plan” (Holtzhauzen, 2011, p. 66).

As the relationship between preconditions and early warning signs have been discussed, focus can now be placed on the strategy determinants of a turnaround situation.

2.2.3.3 *Key determinants of the turnaround situation*

The purpose of key determinants is to combine what Pretorius (2008b) sees as the primary determinants of a turnaround situation into two broad categories thus enabling better understanding of which strategic practices to employ to attain business turnaround:

2.2.3.3.1 Resource munificence

Castrogiovanni (1991) defined environmental munificence as “the scarcity or abundance of critical resources needed by (one or more) firms operating within an environment” (p. 542) while McGrath (1999) described resource munificence as the availability of resources which permits experimentation while performance is not yet at the aspiration levels.

Resource munificence does not only refer to the actual resource, but also to how resources are managed by management capital (i.e. the entrepreneur or the manager of the business (Cressy, 2006). Owing to the scarcity of resources, the availability of resources to an industry or organisation will determine to what extent that organisation can remain profitable and grow within an industry. The extent to which the resource munificent is of key importance in business failure is the extent to which these scarce resources are available to the organisation at the time of turnaround as it will be a critical determinant of which turnaround strategy to use (Pretorius , 2008b).

The second key determinant Pretorius (2008b) referred to centres around the origin of the distress or what Pretorius calls the core problem and the impact that it will have on the decisions to turn the business around.

2.2.3.3.2 Causality of distress theory:

As indicated in section 2.2.2 .3 on the causes and signs of business decline, as well as in the discussion on the early warning signs theory (section 2.2.3.2.) numerous signs and causes indicate that a business is in decline. The case of distress being associated with either operational or strategic origins was developed by Robbins and Pearce II (1992) and asks the question whether the causes or signs of the problem are operational or strategic, as this will determine the turnaround action.

According to this theory, operational problems such as inefficiencies, cost pressures, and incorrect resource application are less severe than strategic issues, which by its nature will determine how the organisation has positioned itself in relation to the external environment as well as the firm's response to changes in that environment. The causality of distress theory stipulates that for a turnaround strategy to be effective, it has to address the issues which are causing the distress. Whether the cause is operational or strategic will determine what action will be taken, the severity with which the action is taken as well as the priority allocated to the action (Pretorius, 2008b).

2.2.3.4 Decision

Based on the precondition, the state of the early warning signs and the key determinants of the situation, the manager will have a clear picture as to the level of business turnaround required. Should the reason/s for the decline be operational in nature and the level of available resource/s be adequate, then a turnaround situation will be required which will be fundamentally different from one where the current organisational decline is severe as a result of strategic decisions which have impacted the level of resource/s available to the firm (Pretorius 2008b).

2.2.3.5 Approach

The approach that can be followed in order to attain turnaround may either be that of formal or informal Business rescue as discussed in section 2.2. For the purpose of this research, focus will be placed on the formal Business rescue process.

2.2.3.6 Execution

The business rescue practitioner has numerous turnaround models and strategies to choose from. One of the earliest models was that of Carrington and Aurelio (1976), who proposed a strategy that involved careful planning and the establishment of an open relationship with those who are stakeholders in the organisation. The strategy also involved open relationships, cost cutting and creditor concessions such as pay-out arrangements.

Since 1974, thirty other turnaround models have been designed and implemented with varying levels of success. One of the more recent models is that of Pretorius (2008b) who provides a strategic approach relevant to each business precondition. These strategies are:

Performing well	-	Growth strategy
Underperforming	-	Efficiency strategy
Distress	-	Forced repositioning strategy
Crisis	-	Turnaround strategy: Last resort/ Combination strategy

For the purpose of this study, focus will be placed on businesses in crisis and requiring a turnaround strategy via the formal business rescue approach, which involves the services of the business rescue practitioner, as per the Act.

The learning gained as a result of the business rescue practitioner applying him/herself to the task will aid the understanding of how the manager's learning during the time differs from that of the time prior to or after the process of business rescue. This refers to the second objective of the study (refer to section 1.4).

2.2.4 The business rescue process and timelines

In order to understand the sequence of events particular to the business rescue process, the process and timelines as set out by Section 129 of the Companies Act 71 of 2008 are as follows:

- The company resolves to begin business rescue proceedings; the company publishes a notice of resolution to every affected person and appoints a Business rescue practitioner within five days of filing the notice.
- A first meeting of the creditors is called within ten business days of the Business rescue practitioner being appointed.
- After consulting with the affected people, including the management of the company, a business plan is prepared within 25 business days of the appointment of the practitioner.
- Ten days after the publication of the plan a meeting is held at which point the stakeholders vote on the plan to determine if its adoption will enable future solvency. If accepted, a notice of substantial implementation is filed.

- If the plan is not approved, 10 additional business days are provided after which termination of business rescue proceedings is requested and filed with the court, if no resolution is achieved.
- Should the business plan be adopted after the 10-day period, the Business rescue practitioner as well as the management of the company have 3 months within which to prove turnaround.

2.2.4.1 *The role of the business rescue practitioner*

The role of the business rescue practitioner, according to Section 141(1) of the Companies Act is to investigate the company affairs, business, property and financial situation and to decide if a reasonable prospect of the company being rescued exists. Currently, no minimum requirement for the role of the practitioners is prescribed - other than it has to be a person with ‘relevant business acumen’ (Act 71 of 2008, the Companies Act).

The business rescue practitioner is required to perform a function which Longman and Mullins (2004) referred to as having both the right knowledge as well as skills to project manage. Pretorius and Holtzhauzen (2008) identified several liabilities faced by the turnaround manager, namely: legitimacy, resource scarcity, leadership capacity, strategy options, data integrity and integration. For each of these liabilities the authors described a set of requisite knowledge and skills to deal with it (see table 1).

Table 1:

The knowledge and skills required to overcome the liabilities faced by the turnaround manager:

Liability	Knowledge requirements	Skills requirements
Legitimacy	Legal Framework of relevant Act Financial	Personal credibility Interpersonal skills Reputational slack Mustering Support

Resource scarcity	Sales and markets Operations and Logistics Human resources Management Efficiency and effectiveness Environmental munificence	Diagnostic skill Analytical skill Conceptualising preconditions Learning from experience Ability to read preconditions Strategic formulation
Leadership Capacity	Situational leadership Experience in leading people	Influencing capability Vision and directions Seeing the "big picture" Problem-solving skills Style (severity dependant) Creating a new culture
Strategic options	Strategic Management Industry Knowledge Environmental interactivity Cause - effect relationship	Innovative thinking Advanced strategic management skill Entrepreneurial thinking
Data integrity	Basic financial knowledge Taxation implications Financial ratios Causes, signs and flags	Basic financial skills Use of financial information
Integration	Wide understanding of general business principles Sales, marketing, operations and strategic interactions	Ability to integrate Ability to implement

Source: Pretorius and Holtzhauzen (2008)

It is therefore evident that the role of the business rescue practitioner is not only critical, but also complex in that if the business rescue is to be successful, he or she has to ensure the appropriate strategy is used.

2.2.4.2 *The shortcomings of the current business rescue process*

While the South African Turnaround Practitioners Website (www.business-rescue.co.za) provides the turnaround practitioner with industry-related articles and processes of work, the source of information includes untested assumptions and makes use of unsubstantiated data and is therefore problematic in an unregulated industry (Holtzhauzen, 2011).

Hotlzhausen (2011) further pointed out that the country and marketplace is lacking in its ability to draw on information, data, experience, expertise, regulation or individuals about Business rescue.

2.2.4.3 Two critical issues in business rescue

2.2.4.3.1 *The importance of data availability in the process of Business rescue.*

The extent to which the data as provided to the business rescue practitioner is accurate and up to date will to a large extent determine how the turnaround plan will be constructed. It has been noted however, that in most cases one of the main reasons for companies having to go under business rescue is as a result of it having poor data or not having any data available that is required in order to run successfully (R. Davies personal communication, 8 December 8, 2011).

2.2.4.3.2 *The management team and the Business rescue practitioner.*

During business rescue the management team of the affected organisation is in a situation where their full support is required in order to turn the business around. This would mean that the business rescue practitioner would play the role of a project manager with the management team being his/her allocated resource owners. It is critical that the management team provides the business rescue practitioner with the requisite level of support and time in order to have the best possible chance of turnaround.

It is therefore evident that business rescue is a multifaceted intervention which follows a failure event and by its nature can teach the manager of the business the relevant actions required to identify the cause of the decline and the possible future actions that can serve to turn the business around. Now that the failure event has been defined focus is needed on how to learn from this failure. The next section will deal with the learning from failure concept.

2.3 Conceptual Framework of Learning from Failure

Cognition and learning has been identified by Pretorius (2008a) as one of the variables in a framework categorising the variables of business failure. His four sub-domains are: signs and predictions; causes and preconditions; recovery; and cognition and learning. This aspect of the research will only focus on the learning aspect.

Most preconditions (figure 1) determining the need for business rescue would have been arrived at as a result of the actions (or lack thereof) taken by the manager of the organisation. The managers' actions would in turn have been motivated by previous learning or experience. The study has as its aim understanding the learning or lack thereof at three critical times during the business failure decision cycle. These stages are: prior to the business being placed under business rescue; while the business is under business rescue; and after the business has been successfully turned around (see figure 2). What then allows for this learning to take place (if learning takes place at all) during the various stages of business rescue?

Wilkinson and Mellahi (2005) stated that the two key issues concerning organisational failure that managers need to understand are a) the causes or processes of organisational failure so as to help them to design effective strategies to avoid them in future and b) the barriers to learning from failure and identifying strategies to avoid them. The value in failing lies in the lessons that can be learnt from it with the hope that whatever was learnt in preceding failures will not be repeated, thus, creating more intelligent organisations for a country that needs entrepreneurial growth.

2.3.1 Prior learning and its impact on business failure

From the discussion on early warning signs theory, it follows that the sooner an early warning sign is identified and acted upon, the less likely it is to place the organisation at risk. Research has found that it is the lack of identifying and acting upon early warning signs, which cause business failure or for the organisation to move along the business failure life cycle. It is therefore the management team's inability to use previous experience (learning) to identify and or act appropriately on these signs relevant to each precondition that causes failure (Weitzel & Jonsson, 1991).

If, for a moment we disregard the chief executive officer (CEO) as leader of the organisation and ask who, other than him or her, should have the prior learning to guide the organisation, then one automatically thinks of the board of directors as being the guiding force put in place to ensure a repository of prior experience from which the CEO and the management team can learn (King III). As the board of directors are in place for the precise purpose of guiding the organisation through their expertise and prior learning, the question has to be asked - what role did they play in the decision making relevant to the identification and action taken as a result of the early warning signs? What level of control and power did these boards have in the direction that the organisation took relevant to the precondition and early warning signs that existed?

Mellahi (2005) stated in his article about the impact of the board of directors on failing organisations that the CEO's tolerance for negative feedback tends to decrease, which then has an impact on the dynamics of the relationship between the board and the CEO. What then is the role of the board, how are decisions made relevant to the precondition that exists and what would the reasons be as to why previous learning was not employed in decision making and to what extent does the attribution theory (refer to 2.3.1.4.) impact the application of prior learning to the preconditions?

2.3.1.1 *The role of the board*

Mellahi defines the role of the board as being that of a fiduciary duty to the shareholders where their duty is to guide and monitor the CEO and the action of the management by “vetoing poor decisions to protect the interests of the shareholders and assisting and advising management in their effort to increase shareholders' wealth” (Mellahi, 2005, p. 263).

The board can therefore be seen as the knowledge or experience pool that has to make sure that the decisions that are made are appropriate. It is also a further function of the position to ensure that where bad decisions are made, they are not allowed to continue, thus causing organisational failure.

With relevance to learning from previous failure and providing advice, Mellahi (2005) defined the board's responsibility as that of advisory council who, based on prior learning and experience and as a result of their diverse make-up would be able to resolve a very diverse range of challenges.

The board of directors should as a result of their position be able to identify the early warning signs as a result of ‘wrong turns’ and in times of distress should align themselves more closely with the management team in order to guide them through the various approaches to dealing with failure.

The following section provides two theories (Prospect theory and Threat rigidity) that the board of directors as well as management should be aware of as it will impact the extent to which previous learning will be applied to situations.

2.3.1.2 *The impact of distress on decision making*

Kahneman and Tversky (1979) opined that as a result of what they term prospect theory, managers are willing to take even more risk to prove that their approach to a situation was correct and that in the light of possible failure even more risk is taken. According to this theory, managers behave like gamblers who increase the amount they are willing to bet when they come to the conclusion that there is a real chance of losing everything. This corresponds with the findings of Straw, Sanderlands, and Dutton (1981) who found: “Because it is often possible for persons who have suffered a setback to recoup their losses through an even greater commitment of resources to this same course of action, a cycle of escalating commitment can be produced” (p. 515). This is evident in organisations where a manager allocates more resources - not less - to a failing initiative purely as a result of what has already been invested rather than based on the merit of the case.

Threat rigidity theory on the other hand, argues that as a result of threatening situations, managers’ responses can be rigid and lack detailed analysis of the situation in order to prescribe an appropriate course of action. By contrast, managers ‘stick to their knitting’ and use a ‘rule of thumb approach’, such as ‘it worked the last time so it should work this time’, resulting in the failure escalating (Barker & Barr, 2002; Straw et al., 1981).

2.3.1.3 *Why experience and previous learning does not prevent business failure*

Irrespective of the experience of the CEO or the board of directors, the extent of the visibility of the early warning signs will impact the action taken to correct them. At the early stages of business failure there is limited clear-cut evidence that a course of action was incorrect or that it could lead to failure. Because of the ambiguity of the available data, there is no clear indication of which action to take (Baden-fuller & Stopford, 1992). Holtzhausen (2011) provided a similar view when he stated that early warning signs change from being invisible to being visible, because of their qualitative nature.

The board of directors do not in many cases take the required action as a result of the following reasons, as identified by Mellahi (2005):

- Group think mentality: The number of years that a board member is allowed to sit on the board will determine the extent to which the thinking of the board is renewed with new members. Ensuring healthy board turnover decreases the likelihood of 'group think'. Barker and Barr are in agreement with this statement and also link the extent to which change will take place to the turnover at board level. "The level of board of director turnover during a turnaround attempt will be positively associated with the extent of strategic reorientation enacted during that turnaround attempt" (Barker & Barr, 2002, p. 967).
- Blind faith in management: The extent to which the board of directors place faith in the management team's willingness and ability to identify issues and to resolve them.
- Willingness to stay on the board: Some board members could be of the opinion that should they criticise the current approach too vehemently, they could be asked to resign from the board.
- Lack of understanding of strategy: As a result of the board's lack of understanding of the strategy, the appropriate questions could not be asked when warning signs appeared. The lack of understanding contributes to the board being unable to test the underlying assumptions upon which decisions were based.
- Not being aware of the magnitude of the crisis: If the management team downplays the importance of warning signals, the board would not be aware of

the seriousness of the crisis and would not pay close enough attention to the root cause of problems.

- Ignoring initial signals: A lack of awareness of the warning signals or misinterpretation of the warning signals may result in inertia.

A further reason why prior learning is not utilised is as a result of the power-play between boards and CEOs during the different business failure stages. Mellahi (2005) found that the power of the CEO and his or her ability to control the board increases over the stages of failure while the board's power and ability to influence the CEO and management team decreases. This is largely due to the CEO managing the flow of information to the board during early stages of decline, thus disallowing the board to comprehend the magnitude of the failure and increasing the likelihood of them approving more risky strategies than previously required.

2.3.1.4 Attribution theory and its impact to application of learning

Attribution theory states that the extent to which top managers attribute the cause of a problem to either internal or external sources will determine to what extent strategic or operational measurements are put in place to address the failure (Barker & Barr, 2002). The underlying logic rests on the principle that managers who attribute the decline of an organisation to external (uncontrollable forces) such as the state of the industry, competitor changes and economic cycles such as recessions, do not strive to learn more about the relationship between the organisation's activities and its environment, and are therefore less likely to change how the operation functions and to view poor performance as requiring strategic internal change.

Barker and Barr (2002) found that managers, who attribute decline to internal sources as opposed to external sources, are more likely to engage in greater levels of strategic reorientation.

The learning from failure and the application of the learning prior to the business going under business rescue can then be seen to be impacted by a number of aspects including: the visibility of the warning signs; the ability of the board of directors to identify warning signs and to affect change; the levels of stress being experienced by the decision maker; as well as the extent to which the decision maker attributes the cause of the failure to be internal or external.

2.3.2 Organisational Learning: Learning that takes place during the process of business failure

While cognisance has to be taken of the impact of being in a crisis situation on the process and application of learning from failure, (as was the case in the previous section), learning from failure during the time of business rescue can be likened to the concept of organisational learning.

2.3.2.1 Views on organisational learning

Cyert and March (1963), while not the first authors to suggest that firms improve over time as a result of learning, were extending the idea when in 1963 they spoke about people in firms analysing their situations and changing their behaviour of their own accord. The principle of organisational learning covers four aspects:

- 1) Learning is crucial to the survival and success of an organisation if one takes into account the pace at which environments change - Cyert and March (1963). An important addition to this principle is that an organisation that does not change will be punished by the social and economic environment only in so long as that change in the respective environments is not a fad - an understanding of the environment is therefore essential.
- 2) Hannan and Freedman (1984) pointed out that the change that happens with an individual firm or the changes that they adopt as a result of the environment they are in has little long-term impact as firms do not have such a long life span. What their theory does see as important, are the behaviours that are adopted by a large number of firms or across an industry as these behaviours have a higher probability of succeeding.
- 3) Barney (1991) maintained that while learning is crucial, it does not provide any competitive advantage for the survivor. Barney further stated that for the learning to provide any sort of strategic advantage it has to have the following characteristics: a) learning must be difficult, b) learning must be rare and c) the learning that took place must be impossible to imitate quickly.
- 4) Starbuck and Hedge (2001) proposed that the level of cognition and the level of learning have little impact on each other as, if it did; managers' perception of their external as well as internal working environments would not be as flawed as it is. They argued that the process of reinforcing successful behaviour and ceasing unsuccessful behaviour might in part be the cause for learning taking place.

- 5) Senge (2006) argues that one has to make reflection part of how things are done and that the After Action Review tool could be used to enable organisational learning.

2.3.2.2 *The value of feedback in learning.*

Performance post the administration of feedback may have either positively or negatively impacted the target of the feedback, depending on how the feedback was given and whether the feedback provided was aimed at the person or the task. Feedback, while aimed at increasing performance through learning, has been proven to actually decrease performance one third of the time it is provided (Kluger & DeNisi, 1996).

Sitkin (1992) stated that feedback can only be a learning experience if the action that it relates to is thoughtfully designed. Baumard and Starbuck (2005) added to this that the effect of feedback is dependent on many contingencies in particular on how feedback is interpreted in the culture of the organisation.

The impact of feedback on learning has been the topic of extensive research and scholars such as Sitkin and March are in agreement that while feedback provides for faster learning, it also leads to: “Premature specialisation in a suboptimal response set and thus poorer performance” (Sitkin, 1992, p. 239).

Feedback can be seen as a tool to enhance the entrepreneurs’ knowledge (Shepherd, 2003). Organisational learning has to date, focussed on learning from success. However, a new school of thought pertaining to learning from failure has evolved with authors making such statements as “A surprising discovery is that learning from repeated success makes future failure very likely” (Baurnard & Starbuck, 2005, p. 282).

To understand this statement as well as what the different schools of thought pertaining to learning is, learning from success will be juxtaposed to learning from failure. Learning from failure will then be investigated relevant to the size of the failure. From this it would be endeavoured to define what the problems are with learning from failure as well as the impact that learning from failure could have on the field of organisational learning.

2.3.2.3 *Learning from success*

One of the benefits of being successful is that the recipe for being successful can be used as a departure point and then be adjusted so as to suit new situations / endeavours / markets in which the business owners want to be successful. However, are there any drawbacks to learning from success?

Over-learning - that is learning from success to such an extent that it disallows radical change but rather fosters incrementally small change and creates the perception that all endeavours will always be completed successfully is one of the pitfalls associated with learning from success. Successes invariably lead to specialisation in the field in which success was achieved; however this same specialisation can cause the individual or organisation to become inflexible. While inflexibility is by no means the greatest sin an organisation can be guilty of, it does become a cause for concern when a crisis changes the industry or the economy which forces the organisation to think outside of its now institutionalised box. (Baumard & Starbuck, 2005).

The resulting inability to react results in the centralisations of control which, as mentioned earlier, causes the business to move from a precondition of performing well to one of crisis in a much shorter timeframe (Baumard & Starbuck, 2005).

Sitkin (1992) in his seminal work on learning through failure summarises that, while less salient than its benefits, the liabilities of success can be summarised in the following points:

- a) Complacency: There is little chance of moving a group who is performing a function well to change their ways as there is little motivation to change. Sitkin (1992) argued that as the process works there might be an associated danger of: “inconvenience or embarrassment” (P. 234) associated with newer, more risky approaches.

A second set of pressure that Sitkin highlighted lies in how blame is allocated in an organisation. He states that: “blame will be assigned to those who failed and acted rather those who have failed to act” - what better reason is there not to act if that which is working is working well.

- b) Restricted search and low levels of attention: The process of breaking down a large problem into manageable sub-problems and then focussing on each problem is a known approach to dealing with large projects or problems. However, Sitkin (1992) states that solving these small problems will only provide low levels of attention being given to the victory which will in turn, result in low levels of information being utilised in future problem solving, thus diminishing the possible solutions these small wins might provide. He Further indicated that “Under conditions of low attention and low stimulation individuals will tend to adhere to old routines, attending only to traditionally relevant information (which reinforces those routines) because there are no signals that indicate the need to try to look for new information or try new routines” (Sitkin, 1992, P. 235).
- c) Homogeneity: Sitkin (1992) argued that if an organisation has a successful recipe, process of work and workforce, it will employ the same people or type of people to follow the same process to produce ostensibly the same result.

What then can be learnt from failure and how does this learning differ from that of the learning that can be gained (or not) from success.

2.3.2.4 *Learning from failure*

Organisations are much more likely to change their behaviour as a result of failure than as a result of success and as such, failure can be seen as a behavioural innovator (Cyert & March, 1963). How then can one ensure that failure does indeed lead to behavioural innovation? The answer lies in how intelligent the failure was.

The principle of failing forward (McGrath, 1999) was an outflow of the principle of intelligent failures which was coined by Sitkin (1992) who identified five key characteristics that contribute to the intelligence of failures:

- 1) The result from thoughtfully planned actions
- 2) Have uncertain outcomes
- 3) Are of modest scale
- 4) Are executed and responded to with clarity and
- 5) Take place in domains that are familiar enough to permit effective learning.

Contradicting the view that failure is beneficial and to be learnt from is the view based on research that when there is an unpleasant outcome, it normally stops the behaviour that caused it. Husted and Michailova (2002) observed that the sharing of knowledge based on the mistake that has been made is limited as individuals who admit to mistakes are hardly remembered at salary negotiation time. Additionally, the fear of future negative consequences is a strong preventative measure for admitting to mistakes and failures.

How then does one approach learning from failure and to what extent can both the above statements be tested? It is with this question in mind that Baumard and Starbuck (2005) conducted a survey at Eurocom of 14 strategic failures, both large and small, that had occurred over a period of two years. The study had as its aim to understand how learning from failure is affected by the size of the failure, the findings being as follows:

“A) Small Failures.

- People paid more attention to small failures than to large ones as small failures impacted their personal behaviour and operating processes.
- The above was not true when the small failures challenged the company’s foundational premise.
- Small failures tended to reinforce core beliefs and core beliefs were reinforced by consistent patterns over time.
- Experiments were only agreed to if it would not challenge the status quo.
- Failed experiments were used to justify the status quo.
- Small failures were used to highlight that the status quo is correct. However, some interpretation processes tended to modernise core beliefs, thus creating incremental change.
- Small failures allowed for the synchronisation of the core beliefs with current and emerging trends.
- Small failures resulted in incremental learning, however as a result of the perceived inconsistency of small failures with core beliefs; such failures did not seriously challenge the validity of core beliefs.
- Small failures were seen as experiments in which one could deviate from practice in order to test the validity of the assumption. However, the moment the experiment was imbedded in core beliefs; the opportunity to test the assumption was lost.
- Evidence that contradicted the core belief was discarded.

- Managers of failed experiments were moved to alternate departments where their newly found knowledge was not utilised.

B) Large Failures

- Large failures reported less learning than small failures.
- The larger the failure the more the failure was attributed to external causes.
- No relationship was seen between previous and current failures.
- The core belief of the firm played a smaller role in the large failures than in the small failures.
- Some large failures were the company's attempt at adapting core organisational beliefs to a large geographic scale. However, other failures were merely based on the following trends: Managers rarely mentioned core beliefs when they explained why they thought large ventures had failed but often mentioned influences in the organisation's environment.

C) Problems with both small and large failures

- Managers did not report on problems that were difficult to explain even though these problems might have been the concept that questioned the validity of the whole campaign.
- The higher the expectation of the project the less likely managers were to test the ideological foundations. While critical liabilities were mentioned, no outright suggestion was made to terminate the project.
- The manager in charge reported difficulty in only eight of the 14 cases studied.
- The larger the venture the stronger the reasons were to keep on trying and escalating effort.
- The organisation has difficulty in distinguishing between vital and trivial problems.
- When problems arose managers tried to find justification/s for the solutions they had previously adopted.

D) The conclusion about what impact the size of the failure has on the learning

Taking into consideration the feedback above, the following points can be made with regards to the study conducted by:

The larger the failure the more the external environment will be blamed for results.

Weaker commitment and weaker control over large failures are commonly used as justification for failure.

No relationship was seen between failures, even though they were managed by the same people.

Large failures were always past events and as such, large complications were never seen as that while they were happening.

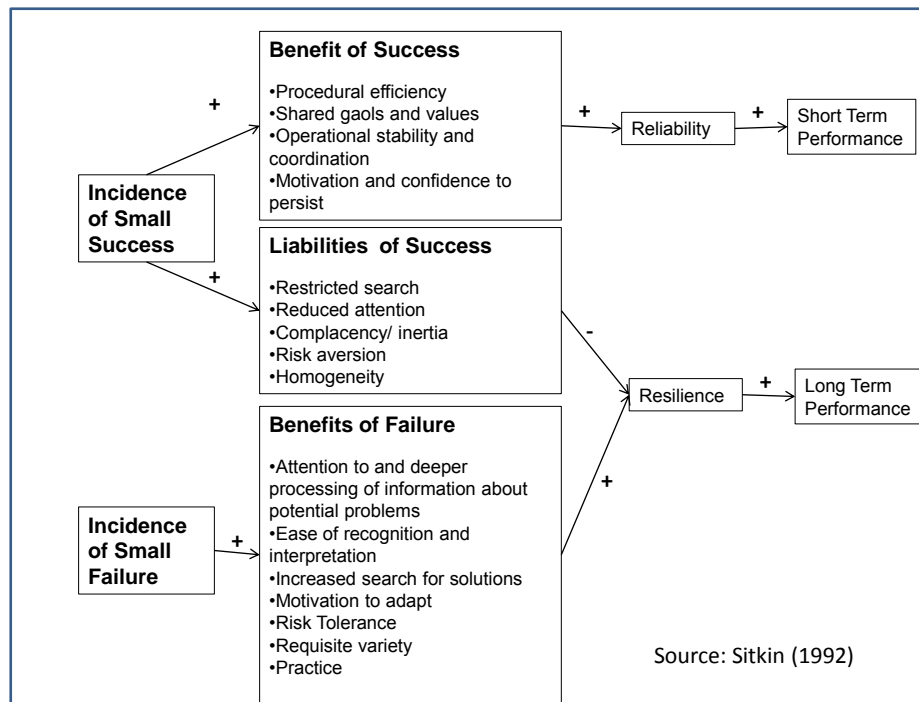
Small failures were seen as indicating the nonsensical nature of deviating from long-held core beliefs.

When core beliefs were indeed questioned, the staff who questioned them were demoted.”(Barnard & Starbuck, 2005, pp 294-295)

They summarised their findings as follows: “The learning that follows success can evolve from a source of further success into a source of failure. The learning that should follow failure often does not occur, and when it does occur, it often teaches the wrong lesson” (Barnard & Starbuck, 2005, p. 295).

The benefits and liabilities of success and failure is contextualised in a diagram, exhibited in figure 5. “To the extent that organisations are successful at adaptation, they are necessarily sacrificing their ability to be adaptive. The essence of the argument is that success fosters reliability, whereas failure fosters resilience.illustrates the hypothesized effects of success and failure on a number of organisational features, and the ultimate effect of success on short- and long-term performance via enhanced organizational reliability and adaptability” (Sitkin, 1992, p. 241).

Figure 5: Benefits and liabilities of success and failure



2.3.2.5 *Strategic failure and its place in learning from failure while it takes place*

The argument for learning from failure Sitkin's (1992) seems a much more practical approach to learning by incremental steps or experiments than through learning by trying to avoid failure. However, how one learns from these failures and how one fails in a structured manner can determine the quality of learning that can be gained from each failure. Learning from failure therefore, can be analysed in terms of the factors that foster more or less effective learning from failure.

The following section will deal with these elements that make a failure an effective learning experience rather than an ineffective learning experience. All of these factors were taken from Sitkin's 1992 seminal work on learning through failure"

Factor 1: Attention and the processing of potential problems

Failure has the habit of drawing attention to areas where there might also be a related problem and as such, makes the search for potential solutions a common occurrence. When one succeeds at a venture there is limited time spent on searching for ways to

do it better as the process has proven itself to work. However, with failure, the process of understanding what went wrong and why, enables learning and betterment.

Factor 2: Ease of recognition and interpretation

How does one know a success is a success? What are the criteria for effectiveness? On the other hand, how does one know a failure is a failure? The logic holds that it is much easier to notice when a solution is not providing what is needed than noticing when a solution is a 100 per cent effective solution.

Factor 3: Stimulating search processes

As we have seen from the section detailing the differences between the learning gained from large and small failures, the extent to which failures stimulate the search for new solutions differs. However, failures as compared to successes provide an avenue to explore new alternatives provided they are not of such a magnitude that it causes a threat to investigate.

Factor 4: Motivation to Adapt

The reasons why failure motivates adaptation are simple: failure provides a clear target, the actions that failure stimulates involve adaptation, and the consequences of the failure might stimulate the willingness to change.

Factor 5: Risk tolerance

The appetite that an organisation has for risk will be the same as the appetite they have for experimenting and learning from failure. An organisation with a low risk tolerance ordinarily does not experiment with failure as the risk does not warrant the reward.

Factor 6: Requisite Variety

The logical flow of failure through experimentation that then leads to the discovery of alternative approaches to 'solutioning' enables the organisation to increase its choice of strategies and products as a result of failure. "The more numerous and greater the

heterogeneity of variation, the richer the opportunity for an advantageous innovation” (Sitkin, 1992, p. 240).

Factor 7: Practice

Through experimentation and the resulting small failures that are produced the organisation can become more ‘change fit’ and better equipped to utilise information from the external environment. Sitkin pointed out that while success provides short term benefit, the learning through failure and the practice it forces on the failed party provides longer term benefits.

To summarise the section on learning during the process of business rescue as a function of organisational learning, the section provided an indication of the learning that takes place as a result of small and large failures, the factors that influence the learning as well as the factors that should be in place to ensure learning from failure takes place.

While this section deals with how to align the business practices and policies to enable organisational learning from failure, the following section deals with the actual learning that has taken place as a result of failure so as to provide a view of how and to what extent learning, post failure, can be better utilised.

2.3.3 Learning from failure post the event of failure having taken place

The previous section explored to what extent learning from failure can be seen as being of equal, if not superior value to the organisation as compared to learning from success. However, the logic seems contradictory as learning from failure seems inferior to learning from success, as one has already learnt that which is necessary to be learnt in order to be successful. This section will provide a framework that will enhance learning from failure and will provide a view of how to maximise the use of learning from failure.

2.3.3.1 *Defining learning from failure*

In keeping with the themes elaborated on in previous sections, learning constitutes learning from both small and large failures. Shepherd (2003) defined learning from failure as: “Learning from business failure occurs when they can use the information available about why the business failed (feedback information) to revise their existing knowledge of how to manage their own business effectively (self-employed knowledge) – that is to revise the assumptions about the consequences of previous assessments, decisions, actions, and interactions” (p. 321). The understanding of what learning is enables the measurement of learning, however what would be the appropriate way to measure learning?

The measurement of learning from failure as defined by Cannon and Edmondson (2005) is the organisation’s ability to “Measure how it deals with a range of large and small outcomes that deviate from expected results rather than focussing exclusively on how it handles major disasters” (p. 300). Here too, learning from success, i.e. positive deviations can provide valuable input. However, for the purpose of this research we focus on how the learning from failure as a result of business rescue can be better understood. What prevents managers in organisations from learning from failure and are there more reasons preventing learning after the failure has taken place?

2.3.3.2 *Barriers to learning from failure*

In order to compartmentalise the barriers to learning from failure in a fashion in keeping with managerial research principles on systems, the barriers will be reviewed out of a social as well as a technical attribute viewpoint. The theory is that organisations are simultaneously part of the social as well as technical systems and that these together with psychological and structural factors, shape organisational outcomes (Rice, 1958; Trist & Bramford, 1958)

Technical barriers

What would complicate learning post failure and the application of that learning to future scenarios, is if a person has an innate inability to process data and to gain learning from that data. Cannon and Edmondson (2005) refer to it as “scientific know-how” (p. 303) needed to be able to draw from experiences”.

How the task is designed and how quickly the failure becomes apparent is another technical barrier to learning. If for example the early warning signs were misread and the adjustments as made by the management team were driving inappropriate solutions, the time it takes to understand how effective the solution was as a result of the technicality of the system would constitute a task-design barrier.

Cannon and Edmondson (2005) elaborate on these barriers and include “inadequate understanding of the scientific method, inability to engage in problem solving, diagnosis, experimental design, and systematic analysis of qualitative data, statistical process control and statistical analysis” (p. 314) as part of the barriers .

Social Barriers

The most logical of social barriers is the strong negative connotation that all humans have to failure and to what the impact of that failure would be on that person’s level of acceptance. People therefore, are naturally scared to admit to failure or to debate the reasons for it.

The forthright acknowledgement of failure which would provide traction for the learning from failure is at odds with the human desire to be in control, an illusion maintained to ensure mental health. Humans tend to need to feel (albeit based on a fallacy) in control of personal and organisational outcomes and the acknowledgment of these failures would indicate they are not in control (Taylor, 1989).

There are no incentives for being a failure, as failures in the corporate arena are punished while successes are praised. Culturally, a negative stigma is associated with failures which, as a natural consequence lead to non-identification of failures.

It is then easy to comprehend why learning from failure is so integrated in how organisations are managed as organisational structures, policies, procedures and management practices discourages people from identifying and analysing failures (Cannon & Edmondson, 2005). When, on the other hand, the failures are identified, social barriers such as the inability to deal with the emotional response received as a result of the negative connotations, the public embarrassment and the feeling of incompetence result in the discussion taking place between the person that failed and the manager as being less constructive and of lower learning value (Cannon & Edmondson, 2005).

Leaders are not excluded from these causes as they suffer the same level of anxiety as a result of the failure that took place and therefore have the same social barriers when dealing with the learning of failure as do their employees.

2.3.3.3 *How organisations can learn from failure*

Taking the above into consideration, it seems that as a result of the considerable social and technological barriers mentioned, there is little hope that learning as a result of failure will ever be an implementable practice. However, Cannon and Edmondson (2005) designed three processes that would enable learning to take place even though the barriers still exist.

They indicate that learning from failure is as much a process as an outcome. The process starts with the identification of three processes from which the organisation can learn:

- 1) Identifying failure
- 2) Analysing failure
- 3) Deliberate experimentation

The three processes are structured to start with the least invasive and taxing, thus allowing the organisation to cotton on to the thought processes required prior to the more challenging changes being made.

1) Identifying failure

As noted in earlier sections, problems are not normally identified as a result of the relevant barrier. However, in this phase of the process, errors are forced to be recorded and communicated as they happen so that errors do not continue and as such, increase the cost to recovery. This approach resolves the early warning signs theory complications in that the board of directors are now forced to deal with identified problems as they occur. The process of identification addresses some of the earlier problems mentioned such as identification of real issues, understanding the relationship between failures as well as the impact of failure on the questioning of core beliefs.

In an earlier section on the organisational learning, feedback, while a tool to be used with due care, was indeed ideal for providing learning through failure. If failure is identified earlier in the process through customers, co-workers, suppliers and creditors feedback, this feedback can then be used to provide an opportunity to learn.

The above seems a perfect solution for the problem of identifying failure; however, it remains untenable if the leadership of the organisation does not create the culture needed in order to make it an environment where failure is seen as an opportunity to learn rather than an opportunity to remove managers.

2) Analysing failure

Failure, once identified, has to be analysed prior to it being of any use for learning. An example of such an analysis is the work that goes into the post-crash analysis that takes place when trains or airplanes collide.

The analysis is however complicated as it requires personal engagement as much as it requires data analysis and the moment that personal experience is used, social barriers come to play (Sitkin, 1992).

In order for the analysis to be successful, it requires that all information is shared in an open and honest environment and that room is allowed for where facts are not clear. However, the analysis of the problems requires self-analysis and self-discovery - a task that is often a bridge too far for many action-orientated managers (Cannon & Edmondson, 2005).

Psychological biases hamper the analysis of data in that it affects how humans interpret what caused the failure and what could be learnt from the failure, given that the analysis of failure is dependent on personal feedback. This can have an impact on the accuracy of the analysis (McGrath, 1999).

A formal process that allows for the analysis of failures once identified provides the organisation not only with an opportunity to learn from failure, but also to identify possible future failures and to address these matters prior to failure occurring. This however, requires the cultivation of an organisational culture that allows and trusts that the learning from failure through open enquiry as well as through the use of scientific methods can be trusted to produce progress.

3) Deliberate experimentation

This approach, made famous by such authors as Cyert & March (1963) Sitkin (1992), advocates that failure is much easier to learn from when an experiment is being conducted than what would be the case when it is for real. This third process can be used by organisations who want to learn from failure as it allows for the organisation to see failure as a by-product of experimentation and it enables the creation of a culture where new things are constantly tried and tested. The benefit in this approach is that the social barriers relevant to normal ‘real-world’ failures are less pronounced in experiments as it gives the person a ‘license’ to innovate and fail.

Where the current operating procedures are set in stone as a result of the number of years they have been in practice, conducting experiments will allow for the organisation to see that processes can and should change.

3M is a company that thrives on the experimental process of work and it is largely as a result of these experiments that they are today the manufacturer of such cutting-edge products as the Hilti, Post-it notes and self-adhesive tapes.

Given that the above three processes can enable learning there is however still the obstacle of barriers to learning that has to be overcome for the process to be a success. Cannon and Edmondson (2005) define six recommendations of how a firm can learn from failure considering the barriers and processes discussed above. These recommendations are depicted in table 2.

Table 2:

Key processes in organisational learning from failure.

“Key processes in organisational learning from failure”			
	Identifying failures	Analysing Failures	Experimentation
Barriers embedded in Technical Systems	Complex systems make many small failures ambiguous	A lack of skill and techniques to extract lessons from failure	Lack of knowledge of experimental design

Recommendations	R1: Build information systems to capture and organize data enabling detection of anomalies and ensure availability of systems analysis expertise	R2: Structure After Action Reviews or other formal sessions that follow specific guidelines for effective analysis of failures and ensure availability of data analysis expertise	R3: Identify key individuals for training in experimental design; use as internal consultants to advise pilot projects and other line (operational) experiments
Barriers embedded in Social systems	Threats of self esteem inhibit recognition of one's own failures, and corporate cultures that "shoots the messenger" limit reporting of failures	Ineffective group processes limits effectiveness of failure analysis discussion. Individuals lack efficacy for handling "hot" issues.	Organizations may penalize failed experiments inhibiting willingness to incur failure for the sake of learning
Recommendations	R4: Reinforce psychological safety through organizational policies such as blameless reporting systems, through training first line managers in coaching skills, and by publicizing failures as a means of learning	R5: Ensure availability of experts in group dialogue and collaborative learning, and invest in development of competence of other employees in these skills	R6: Pick key areas of operations in which to conduct an experiment, and publicize widely within the company. Set target failure rate for experiments in service of innovation and make sure reward systems do not contradict goals"

Source: (Cannon & Edmondson, 2005)

2.3.4 Unfailing failure

Up to this point in the literature review, dealing with learning from failure, covered learning prior to failure based on the prevention through the utilisation of experience from the vantage point of the board of directors, learning from failure during the process of failure in the form of organisational learning and learning post failure in the form of a framework to aid learning post the occurrence of failing. However, not covered are such aspects as how to reframe failure (Cannon & Edmondson, 2005) or

how to fail more intelligently (Sitkin, 1992) or the undoubted impact of grief and anticipatory grief on learning (Shepherd, Wiklund, & Haynie, 2009).

This section will be used to elaborate on these concepts as well as to show some of the relationships between theories so as to better illuminate the constructs that underpin learning from failure.

2.3.4.1 *Intelligent failures*

Failure can be reframed according to Cannon and Edmondson (2005) by ensuring that it is seen as part of doing business. Identifying and learning from failure is by far a better approach to dealing with failure than ignoring it and punishing all who are responsible for it. This implies that holding people accountable for what Sitkin (1992) terms as intelligent failure. Sitkin viewed failure as being an unavoidable risk in addressing challenging problems and as such, he opined that failures that facilitate learning can be seen as intelligent failures. To this end, he defined five characteristics that contribute to the intelligence of failures:

a) The failures result from thoughtfully planned actions

The link Cannon and Edmondson (2005) makes regarding the analytical requirements needed to learn from can be seen as well planned actions can produce a wealth of data that can be used for further analysis. The point of relevance here is that depending on the size of the project the quantum of data collected will need to be adjusted, this then also links in with the theoretical difference between how learning from small and large failures differ. Sitkin (1992) also elaborates here on the additional value one can gain from feedback should the process be thoughtfully designed.

b) The failures have uncertain outcomes

For a failure to be intelligent, the failure itself should not be predictable. On the contrary, the more unpredictable the failure, the more can be learnt by it.

c) The failures are of modest scale

Sitkin (1992) argued that by scaling down problems, we can make the learning from them more responsive to human intervention. This however, should be implemented with care, as Barker and Barr (2002) warns that reducing problems to too small a scale might make the learning irrelevant as a result of the perceived limited impact.

d) The failures are executed and responded to with alacrity

The level of intelligence in a failure is directly proportional to the time it takes to receive feedback so that learning can occur. Sitkin (1992) argued that the intention is to obtain quick and accurate feedback while the problem is still relevant and unsolved and the experiment is in progress.

e) The failures take place in domains that are familiar enough to permit effective learning. Whilst reviewing why the reasons for learning from large failures were so minimal, it was pointed out by Barker and Barr (2002) that the level of attribution of failure to external source directly impacted the perception of control over failure. Here the principle of ensuring failure occurs in a domain that is relevant to organisations in order to be noticed and understood underpins the attribution theory.

In addition to the five characteristics that contribute to the intelligence of failures, Sitkin (1992) also provided four goals for organisational conditions to strive towards if it wants to facilitate intelligent failure. They are:

Goal 1: To increase the focus on process rather than outcomes

Goal 2: To legitimize intelligent failure

Goal 3: To engender and sustain individual commitment to intelligent failure through organisational culture and design

Goal 4: To emphasise failure management systems rather than individual failure.

2.3.4.2 Grief and the impact it has on learning

While the reasoning behind learning from failure, the structure and prerequisites required, as well as the process that is needed to enable it have been debated, the actual impact of failure on the individual and more specifically, the impact of both grief and anticipatory grief on learning, still requires some clarification. The relevance of the impact of grief on learning is that the majority of businesses placed under business rescue are privately owned and as such, no study of learning will be complete without engagement of this critical facet.

2.3.4.2.1 *The contradiction*

Organisational Learning theorists such as Cyert and March (1963) suggest that negative emotions (such as grief) stimulate learning while threat rigidity theorists on the other hand, argue that as a result of the threatening situation, managers' responses are often rigid and lack detailed analysis of the situation in order to prescribe an appropriate course of action (Barker III & Mone, 1998). It is because of this dichotomy that Shepherd (2003) decided to analyse the psychological literature on grief and emotions to clarify how grief interfaces with the processing of information.

Shepherd (2003) proposed the following as it pertains to the impact of grief on learning:

Proposition 1: The higher the level of loss, the less learning is taken from the loss i.e. the interference of grief is greater with higher levels of information.

Shepherd (2003) distinguished between two different orientations towards dealing with loss being: loss orientation (relevant to the loss of a loved one where the person goes through a period of mourning where emotional bonds are severed over time) and; restoration orientation (relevant more towards the loss of a business. This orientation is based on avoidance and proactive search for renewal).

Proposition 2: Grief of a business is reduced by using either of these orientations towards loss.

Proposition 3: A dual use of grief recovery reduces grief more quickly.

Proposition 4: At a given level, the dual use of grief recovery enables an individual's ability to learn more from information about the loss than the exclusive use of either orientation.

Grief does impact learning. However, how one deals with the process of recovery has a direct impact on the learning that is taken from the experience.

2.3.4.2.2 *Anticipatory grief.*

Following on from his work on the impact of grief on learning, D.A Shepherd published more work on grief during 2007 in conjunction with John Wilkund and Michael Hayne.

However this time the focus was placed on anticipatory grief. While the impact to learning was not focused on during this study, the impact of anticipatory grief would ultimately impact the learning that takes place as the relationship between grief and learning was already established in prior work.

The findings of this study were that the level of anticipatory grief (the period of emotional processing in anticipation of the upcoming death) that was undergone, reduces the grief triggered by the failure event, which reduces the emotional cost of business failure (Shepherd et al., 2009).

Contemplation of this fact in conjunction with the earlier work done by Shepherd (2003) leads to the conclusion that the extent to which anticipatory grief is experienced will impact the speed at which learning is gained from loss or failure.

2.4 Conclusion

Evident from the literature review is the complexity and multidimensional nature of both the topic of business rescue and learning from failure. The challenge lies in creating a framework that can be used to enable learning from failure while operating within the confines of a business rescue process.

CHAPTER 3: THE RESEARCH PROBLEM

1.1 Introduction

This section will argue the need for the study of the learning as gained from each of the three phases of interest in Business rescue (refer to figure 2). Section 3.1 will deal with learning from failure prior to the implementation of Business rescue and section 3.2 will deal with learning during and after the implementation of Business rescue.

1.2 Why did previous learning not allow for the making of changes Prior to Business Rescue being required?

Is the fundamental difference between the cognition and learning of the Business rescue practitioner and that of the owner manager of a failing venture the extent to which they perceive business failure? Sheppard and Chowdhury (2005) theorises that there are four essential points one needs to know in order to understand organisational failure:

- a) “Failure is the misalignment of the organisation to the environmental realities;
- b) Because failure involves the alignment – or misalignment of the organisation, it is by definition about strategy;
- c) Because failure deals with strategy, we can make choices to accelerate it or avoid falling into its clutches;
- d) Because organisational failure can be avoided even after decline - rapid or prolonged - the ultimate failure of the organisation really stems from a failure to successfully execute a turnaround” (Sheppard & Chowdhury, 2005, p. 240).

How did the business owner experience the business failure and to what extent did this experience impact his decisions and actions. Were his decisions and actions informed by his board and did their experience inform his decisions and actions?

1.3 What learning was evident as a result of the Failure Process

The remaining two learning timeframes of this study involves learning during as well as learning after Business rescue practices have been undertaken. The enquiry is based on seven theoretical perspectives of learning from failure which have relevance in that they illuminate learning as a result of failure:

1. *The Learning from failure & grief perspective:*

It is a widely held belief that we learn more from our failures than our successes (McGrath, 1999; Sitkin, 1992) and that as a result of a business failure, owners and managers have opportunity to learn from the experience (Shepherd, 2003). However, this learning is accompanied by grief and the extent to which we learn is largely dependent on the extent to which we feel grief as well as how we process it.

2. *Anticipatory grief*

This idea of the impact of grief on learning was expounded on, when in 2009, Shepherd, Wiklund, and Haynie introduced the idea of anticipatory grief which according to the authors is a mechanism used to reduce the level of grief triggered by a failure event which in turn reduces the emotional cost of failure (Shepherd, Wiklund, and Haynie, 2009).

3. *Failure size determines learning*

Baumard and Starbuck (2005) examined the difference between learning from small and large failures and demonstrated that small failures tend to reinforce core beliefs and only foster incremental learning, while large failures support even less learning as they are predominantly attributed to external causes.

4. *The intelligent learning theory*

This theory follows the same approach as that of Sitkin (1992) who in his earlier work on “intelligent failures” points out that, failures that challenge core beliefs and assumptions are less likely to lead to learning as individuals will be unable to effectively process such threatening experiences.

5. *Small failures lead to large failures*

Cannon and Edmondson (2005) reviews the barriers to learning from failure at an individual level and argue that barriers to learning from failures can be attributed into both social and technical failures. They see technical barriers to failure as: “consisting of lack of basic know-how to be able to draw inferences from experiences systematically” (p. 302) and social barriers as emanating from the “strong psychological reaction” (p. 302) that most people have to the reality of failure such as, positive illusion and the consequences associated with identifying failures.

6. *Higher level learning outcomes*

The higher level learning outcomes viewpoint as held by Shepherd (2003) where he states that:

- a) Recovery and re-emergence from failure is a function of distinctive learning processes that facilitate a range of higher level learning outcomes and that;
- b) Powerful learning outcomes are future orientated which will increase the entrepreneur’s preparedness for further enterprising.

Does the above theoretical perspective hold true in the context of Business rescue and does the presence of the Business rescue practitioner impact on it?

1.4 The Case for understanding Learning from Failure in the Context of Business Rescue

It is evident from the above that ample theoretical bases exist as to why learning could or could not take place, what was required in order to learn from failure, and what the constraints were to learn from failure. However, the impact of the business rescue process and the business rescue practitioner on learning from failure are not clear.

The research problem therefore, is to understand how learning from failure differs as a result of the phase of business rescue within which the organisation finds itself.

1.5 Propositions

Based on the literature reviewed as well as the individual cases made relevant to each phase of learning from failure the following is the list of propositions that will be tested in the research:

Proposition 1: The board of directors should provide the insight gained from experience and prior failure to prevent the business from going into Business rescue.

Proposition 2: The location of the perceived cause of the business failure will determine the action taken by the manager of the organisation.

Proposition 3: Learning during the pre-Business rescue phase did not take place as the incumbent was unaware that he / she had to adjust their approach to managing the business relevant to the severity of the business failure situation.

Proposition 4: Learning during the business rescue process is higher (in comparison to the instance of learning prior to or after the instance of business rescue) than during any other phase in business rescue as the manager understands that learning is critical to achieving business turnaround.

Proposition 5: Learning generated through business rescue is applied to future situations given the context is relevant.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Choice of methodology

The approach that will be used will be based on the grounded theory research (Corbin & Strauss, 1990). The procedure of grounded theory as seen by Corbin and Strauss are: “designed to develop a set of integrated concepts that provide a thorough theoretical explanation of social phenomena under study” (p. 05). Saunders and Lewis (2012), defined grounded theory as: “a research strategy in which theory is developed from data generated by a series of observations or interviews principally involving an inductive approach” (p. 119), where “a research approach which involves the development of theory as a result of analysing data already collected” (p. 109) defines the fact that it is an inductive approach.

This approach to research will aim to test the theories relating to learning from failure in the context of business rescue by conducting semi-structured interviews, where semi-structured interviews are defined as: “when the researcher may follow the standard questions with one or more individually tailored questions to get clarification or probe a person’s reasoning” (Leedy & Ormond, 2013, p. 190).

A qualitative exploratory design will be used. Sandelowski (2000) defined qualitative research as “a comprehensive summary of events in the everyday terms of those events” (p. 334) and exploratory design is defined as “research that aims to seek new insight, ask new questions and to assess topics in a new light” (Saunders & Lewis, 2012, p. 110).

This approach will be used as it will allow the researcher to gain a more in-depth insight into the learning from business rescue, from the participants in the process. The fluidity of the method will allow for richer qualitative information to be obtained and will allow for deeper insight into areas that might not be readily apparent and for which a quantitative technique would be too superficial.

4.2 Scope and unit of analysis

The scope of a project is defined as “the detailed description, in whatever format is appropriate to the project, of the objectives for that project” (Kraus & Cressman, 1992, p. 15).

For the purpose of this study the scope will be that research will be conducted on firms that have undergone business rescue as well as with business rescue practitioners who have aided organisations in the process of business rescue. The principles of learning will be looked at from the perspective of the individuals who were at the helm of the organisation as well as of the business rescue practitioners. Focus will be placed on what these individuals perceived as learning. Insight into what each individual perceived as learning compared to that of another will not be derived.

According to Trochim (2006), a unit of analysis is the main body that is being analysed in a study. This study then has as its unit of analysis to research the extent of learning from failure achieved through the process of business rescue.

4.3 Population

The population is defined by Saunders and Lewis (2012) as: “the complete set of group members. The population need not necessarily be people or employees: it can, for example, be organisations, places or some of the tracks listed for a music CD” (p. 132). This research will have as its population all businesses under business rescue that make use of one particular financial institution in South Africa.

4.4 Sample size and method

The sample is “a subgroup of the whole population. The subgroup need not necessarily be a subset of the people or employees: it can, for example, be a subset of organisations” (Saunders & Lewis, 2012, p. 132).

Non probability sampling i.e. the sampling technique used when one does not have the definitive list of the population (Saunders and Lewis 2012) will be used in that the sample will only be drawn from businesses that have undergone business rescue and that received financing from one specific financial institution. The financial institution

has 72 companies that have or are undergoing business rescue. Of these companies approximately 30% have successfully completed business rescue. Interviews will be conducted with eight of these companies. Following these interviews, interviews will also be conducted with seven business rescue practitioners.

(Saunders and Lewis, 2012) defines convenience sampling as “the process of sampling based on those samples which can easily be obtained” (p. 140) for the purpose of this research as telephonic interviews will be conducted with the eight businesses that have undergone business rescue and that are willing to participate in telephonic interviews . In order to ensure learning from failure view is gained that is not biased to one industry, interviews will be conducted across eight different industries.

The business rescue practitioners who are involved in the business rescue cases above will also be approached to participate in the research. All business rescue practitioners will by implication be associated with the same financial institution as the business owners.

4.5 Data gathering processes and research instrument

Two phases of interviews will be conducted with the input generated from the first phase of interviews and used to create questions for the second phase of interviews.

4.5.1 Phase 1: Interviews with managers

Interviews will be conducted with the primary decision maker (owner or CEO) within the organisations. The decision maker will be contacted by phone and an interview will be requested. If the participant is in agreement, an email will be sent to the individual explaining the purpose of the research and the value their involvement will have in determining the outcome of the research.

In each instance that interviews will be conducted the participants will be asked the same set of questions. However, at the end of the interview the participants will be asked if they have any additional information (tailored questions) that they believe pertinent, but not yet covered. This additional information will then be incorporated into themes.

Throughout the process of interviewing, the answers to the questions will be evaluated to determine if they provided the information required to test the propositions. If the information gleaned from the interviews is insufficient to test the propositions, new questions will be added.

The duration of the interviews will be between 30 and 60 minutes. Respondent's answers will be recorded on the computer by typing answers next to question.

Telephonic interviews will be used as it will be the only format that will allow the researcher to conduct interviews with managers and business rescue practitioners across the eight different industries, given their geographically dispersed nature of the respondents. Notes will be transcribed within 48 hours of the interviews being conducted. The data will then be analysed and categorised according to the themes that emerge.

The following interview guide will be used during the interviews. The questions will be structured based on the learning per phase:

Learning Prior to Business rescue:

- Please provide some historical background to the venture and how you came to be part of it.
- Please provide some background on how you came to be in the directing role of this organisation.
- What skill or experience do you have pertaining to marketing?
- What skill or experience do you have pertaining to operating this business?
- How long have you been in this business?
- How long have you been in your role?
- What exactly is your role?
- Who else is involved in the management of this organisation?
- What caused the failure of your business? Have you had a similar failure brought about by a similar action in the past?
- What was your reaction to this problem?
- What elements of this problem do you feel you could have resolved yourself if you had the knowledge?
- What did you do when you realised you could not solve the problem yourself?

- To what extent was there experimented with new approaches / products in your organisation?
- Did the board identify problems and advise on changes in strategy?

Learning during Business rescue:

- What changes did the Business rescue practitioner make that surprised you?
- What impact did this have on the organisation and why?
- Did you gain any learning from the process while the business rescue practitioner was managing your business?
- What did you learn from the business rescue practitioner?
- Why was it possible to learn from the business rescue practitioner?
- Did you experience grief during the business rescue process?
- What impact did technical know-how have in determining the learning from the process?
- What would have helped you to learn more from the business rescue process?
- What role did the board play during this process and did it impact your learning?

Learning after the Business rescue process was completed:

- Was the Business rescue process completed successfully and did the organisation attain full turnaround (profitable for three successive years)?
- Why do you believe this happened?
- What hampered or enabled learning through this process?
- Did you learn anything from this process?
- What did you learn?
- What was your learning relevant to?

4.5.2 Phase 2: Interviews with business rescue practitioners

In keeping with the: “series of observations” (p. 119) definition of grounded theory as provided by Saunders and Lewis (2012), the second series of interviews will be conducted with business rescue practitioners. These telephonic interviews will be conducted to provide an alternative view on the learning that they believe takes place as a result of failure.

The following is an interview guide to be used during the interviews:

- What experience do you have in business rescue?
- What is the situation when you get involved and what do you do?
- Why do you think owners of businesses do not learn from their previous experiences?
- What do you think owners learn during the business rescue process?
- What have you learnt in this process?

In all instances the participants will be asked a structured set of questions after which they will be asked to add additional information they believe pertinent, but not yet covered in the conversation. This information will be analysed and incorporated in the creation of themes.

Saunders and Lewis (2012) states that quality research includes valid and reliable data and that in order for conclusions to be believable the content should be measured in accordance with the extent to which the findings are what they appear to be as well as the extent to which the data can be recreated. Saunders and Lewis indicated that the 5 principle factors threatening the validity of the research findings are: Subject selection, history, testing, mortality and ambiguity about casual direction.

4.6 Data validity and reliability

4.6.1 Validity

Given the constraint of the size of the population, all care will be taken to ensure subject selection is conducted as representatively as possible. Literature reviews prior to the interviews combined with the triangulation of evidence will also add rigour to the data.

As the same primary interview guide will be used for all participants, all effort will be made to minimise the impact of events on the interview process. While the sample size is a limitation of the research, the interviews will be used to verify/disprove the theories held.

Only data of participants who complete all interviews will be used, thus eliminating the threat of mortality.

While the ambiguity of the casual direction is a threat to the validity of the data the use of prior theory and probing questions will ensure the achievement of accurate information.

4.6.2 Reliability

Saunders and Lewis (2012) define reliability as the extent to which findings can be reproduced by other researchers with the same net result. To this end, standard processes will be used to obtain data and all effort will be made to ensure the assumptions and findings made can be vetted against the transcripts of the interviews.

4.7 Data Analysis

Analysing data using the grounded theory method requires reducing raw data into concepts that are capable to stand alone in categories.

Interview transcripts and observations will provide a descriptive view of the interview however; it cannot provide an explanation for the answers given.

Thematic content analysis Burnard, Gill, Stewart, Treasure and Chadwick (2008) which arose out of grounded theory will be used to analyse the answers in order to start categorising them into themes. The approach requires that the feedback obtained as a result of transcribing interviews will be analysed to identify themes.

4.8 Research Limitations

The basis for this research would be the feedback received from the participants in the case interviews. Their explanations are likely to have subject bias which Saunders and Lewis (2012) referred to as the bias that is caused as a result of the interviewee giving incorrect information as they are concerned with how it might reflect on them.

The limitation of this sample is that it only allows access to businesses that have one particular financial institution as a creditor in that it excludes businesses or entrepreneurs who have never used a formal funding source. Finally, as a result of the

timeframe and location of the sample, only a limited number of interviews will be conducted.

The research will not focus on the cognitive processes involved in the learning nor will it delve into how the actual learning took place, organisational learning or individual learning processes. The research will however, focus on the practical application of lessons learnt either as a result of the participant indicating that learning took place or through the practical application of lessons learnt in future ventures. One of the main reasons for choosing a qualitative research approach was to allow for the interviewee to provide first-hand information as to where their actual learning from failure was evident.

CHAPTER 5: RESULTS

5.1 Introduction

The purpose of the research is to determine the extent to which learning from failure took place prior to, during and after the implementation of business rescue.

In this chapter the data collected during interviews with managers of companies in Business rescue as well as with business rescue practitioners are analysed. The discussions are centred on finding clarification to the following five propositions:

Proposition 1: The board of directors should provide the insight gained from experience and prior failure to prevent the business from going into business rescue

Proposition 2: The identification of the cause of the business failure will determine the action taken by the manager of the organisation

Proposition 3: Learning during the pre-business rescue phase did not take place as the incumbent was unaware that he / she had to adjust their approach to managing the business relevant to the severity of the business failure situation.

Proposition 4: Learning during the business rescue process is higher (in comparison to the instance of learning prior to or after the instance of business rescue) than during any other phase in business rescue as the manager understands that learning is critical to achieving business turnaround.

Proposition 5: Learning generated through business rescue does get applied to future situations given the context is relevant

5.2 Respondents Description

The following section describes the respondents relative to the approach followed.

5.2.1 Sample description

Eight companies were selected out of a possible population of 72 companies that have undergone Business rescue and who are associated with a particular banking institution. These companies were selected based on their willingness to participate in the interview process.

As can be seen from Table 5.1 a second series of interviews were conducted with Business rescue practitioners. These interviews were conducted to provide an alternative view on the learning that they believe took place as a result of failure. Business rescue practitioners were selected based on their willingness to participate in the research, all business rescue practitioners selected worked with a particular financial institution.

While the researcher was aware that questions could be added or delete from the study relevant to the additional need to have the propositions informed there was no need for this and the phased approach to interviews aided in ensuring data collection was relevant to enlightening the propositions

Table 5.1
Research design

Research participants	Aim of Phase	Data Collection Method	Sampling technique	Sample Size
Phase 1: Business owner interviews	Experiential understanding of learning	Semi-structured interviews	Non probability, Convenience	8
Phase 2: Business rescue practitioner interview	Expert opinion on learning	Semi-structured Interviews	Non probability, Convenience	7

To contextualise the findings the profiles of the business owners and of the business rescue practitioners are outlined, followed by a discussion on the experiences of the owners relating to turnaround, grief and learning. Thereafter the findings relating to learning from business rescue is summarised and supplemented with quotes to reveal the richness of the data gathered during the interviews.

5.2.2 Profile of business owners

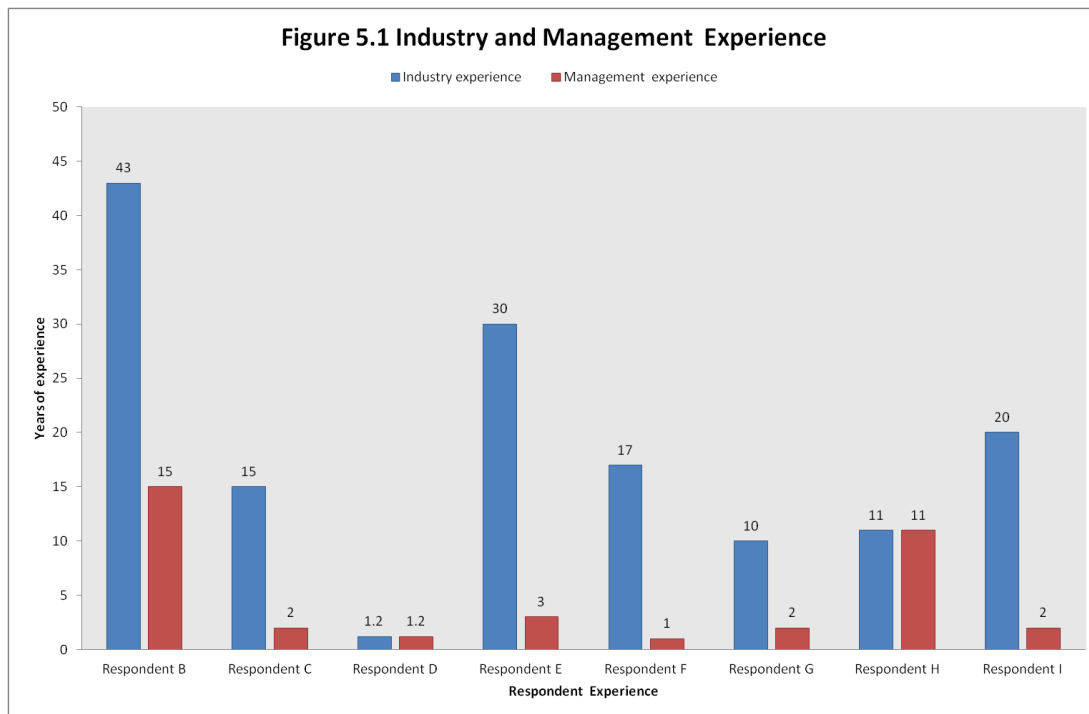
It was the intent of the researcher to gather feedback from learning out of failure from as diverse an industry sample as possible and as such respondents from eight different industries were interviewed. Table 5.2 indicates the diversity of the respondents' industries.

Table 5.2
Business Owner Industry Classification

Respondent	Industry Classification
Respondent 1	Clothing retail
Respondent 2	Debt collections
Respondent 3	Medical equipment
Respondent 4	Construction
Respondent 5	Fresh produce
Respondent 6	Telecommunications
Respondent 7	Security
Respondent 8	Pharmaceutical

5.2.3 Industry and management experience

Relevant to the extent of prior learning to which someone was exposed is the years of service an individual had in a particular industry as well as in the role of manager of an organisation. With the exception of one, all the participants had more than 10 years of industry experience (fig 5.1). It may be concluded that these respondents had experience of operating in their respective industries. However, with regard to management experience, a different scenario emerges. Only two of the participants had more than 10 years experience as a manager, while the remaining participants could be classified as novice managers with mostly between one and two years of management experience with one participant with three years of management experience. It is possible that this lack of management experience may have contributed to their companies entering into business rescue. Figure 5.1 further indicates that in most cases the number of years of industry experience far exceeds the number of years of management experience.



5.2.4 Business rescue outcomes, grief and learning

All eight participants claimed to have experienced learning during the process of Business rescue with 75% attributing having learnt as a result of failure. Although the remainder of the participants did experience learning they claimed that it had no relevance to failure but rather the particulars of the Business rescue process.

As can be seen from Figure 5.2 and Table 5.3, in only 25% of the cases did the board members add insight into how to better operate the organisation to prevent it from going into business rescue. This provides an answer to the first proposition which states:

Proposition 1: The board of directors should provide the insight gained from experience and prior failure to prevent the business from going into business rescue

Of the eight company managers interviewed half achieved turnaround while half were liquidated. All the companies were however taken through a process of business rescue where a business plan was developed and presented to their creditors.

Half of the respondents commented that they experienced grief during the time of business rescue. Such grief could be partly contributed to the fact that they were the founding / long standing managers and as such had either built the company or had

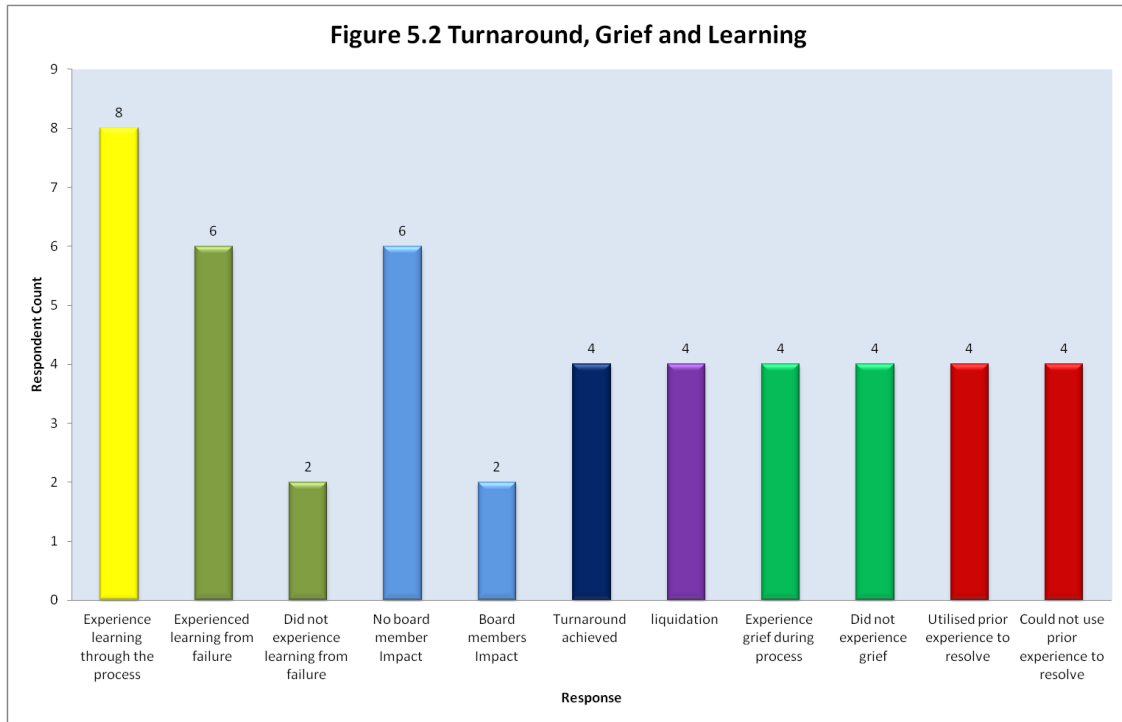
been part of it for a substantial period of time. In instances where grief was not felt it was partly due the fact that managers were specifically appointed to turn the business around. No relationship was found between grief and liquidation vs. continuation as the grief was reported to be caused by the mere fact that Business rescue had become a necessity rather than the outcome of the process

Half of the respondents were of the opinion that prior experience assisted in resolving the business problems. The other half thought that no amount of prior knowledge or technical expertise could be of value to resolve the business problem they were faced with and as a result the knowledge of the Business rescue practitioner was vital in ensuring business turnaround.

Table 5.3

Reponses to questions relating to learning, grief and turnaround

Questions	Yes	No
Experience learning through the process	8	0
Experienced learning from failure	6	2
Did not experience learning from failure	2	6
No board member Impact	6	2
Board members Impact	2	6
Turnaround achieved	4	4
liquidation	4	4
Experience grief during process	4	4
Did not experience grief	4	4
Utilised prior experience to resolve	4	4
Could not use prior experience to resolve	4	4

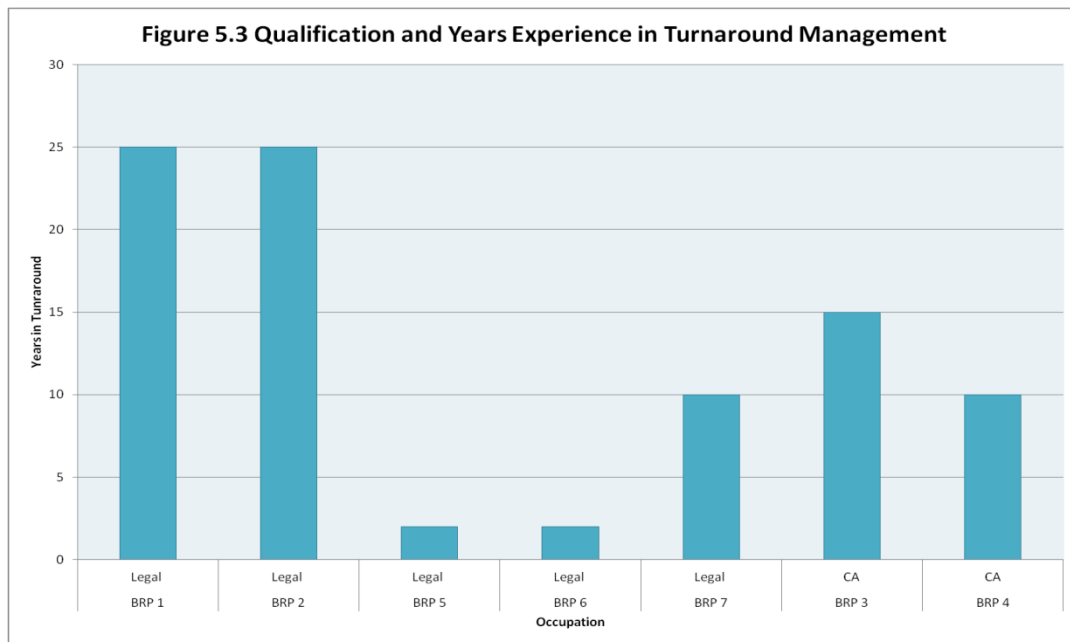


5.2.5 Profile of business rescue practitioners

The business rescue practitioners interviewed came from either a legal (5 participants) or financial (2 participants) background. The relevance of this is that managers who realise that their companies are in need of turnaround normally approach a legal person for help, who in turn then provides them with a service or in some cases these legal parties then refer the managers to accountants .

Five of the business rescue practitioners have been practicing business turnaround for periods ranging between 10 to 25 years, and have been involved in business rescue long before the Companies Act, 71 of 2008 was assented to on 8 April 2009, legislating business rescue . Two of the business rescue practitioners started their practices after 2009 and they each have two years of experience in Business rescue .

Their legal qualifications vary between being qualified as lawyers, liquidators or attorneys. They tend to be in the turnaround industry as a result of an additional service that they offer due to the demand. In many cases legal firms have dedicated departments to manage business rescue.



* BRP refers to Business rescue practitioner.

The following section will deal with the information relevant to learning from failure.

5.3 Learning From Failure

The purpose of the research is to determine the extent to which learning from failure took place prior to, during and after the implementation of business rescue . The analyses of the research data are grouped into these three stages. To this end questions that have relevance to learning from failure either to give context or to provide explanation of answers have been grouped together to enable the identification of themes. Themes in the data (Tables 5.4, 5.13, 5.17, 5.21, 5.23, 5.26,) are identified by blue shading .Themes in the manager interviews are compared to themes from the business rescue practitioners' interviews.

5.3.1 Learning from failure prior to entering business rescue: Managers view

This section seeks answers to the second proposition which states:

Proposition 2: The identification of the cause of the business failure will determine the action taken by the manager of the organisation

All of the questions in this section have relevance to the learning that was gained by the manager prior to going into business rescue and has as its aim to establish a cause of the failure and aims to explain why prior learning did not prevent the failure from occurring. Additionally the section asks the interviewee what his reaction was when he/she realised he/she could not resolve his/her own problem thus seeking to understand if there was understanding that failure was about to occur. Seven themes relevant to the second proposition emerged (table 5.4).

Table 5.4

Learning prior to entering business rescue

Learning prior to entering Business Rescue			
Question	Response	Theme	Who
What caused the failure of your business?	Theme 1. Client (Government / Private individual non payment (external cause)	63%	BDEGH
	Theme 2. Turnover did not increase as forecasted, and cash flow suffered (internal cause)	25%	BI
	Insufficient debt collections practices (internal cause)	25%	BC
	Inefficient business model and infrastructure constraints (internal cause)	25%	FC
	Supplier contracts limited the organizations ability to adjust	13%	C
	Customer ethics changed.	13%	B
	Lack of information	13%	F
	Have you had a similar failure brought about by a similar action in the past ?	Theme 3. No	88%
Yes		13%	I
What was your reaction to this problem?	Theme 4. Operational enablement including cost reduction	63%	BCDEF
	Theme 5. Informal meeting with creditors and debtors to make payment arrangements	38%	BEG
	Wanted to go into business Rescue	38%	CDF
	Customer retention actions	38%	CIF
	Reduce infrastructure	25%	BC
	Bought new IT system	13%	C
	Reduce price of product	13%	F
	Realization that " I needed help "	13%	H
	Borrow more money	13%	I
What elements of this problem do you feel you could have resolved yourself if you had the knowledge?	None I had the knowledge	38%	DEG
	Theme 6.		
	Design of employment contracts	13%	B
	Better IT strategy	13%	C
	More Management information inclusion	13%	F
	Better Macro environmental understanding	13%	H
What did you do when you realised you could not solve the problem yourself?	Theme 7. To go into business Rescue	50%	DFGH
	Approach a lawyer, consultant,	38%	BEI
	Decided to sell business or go into business rescue	13%	C

5.3.1.1 Cause of failure

Theme 1: Bad debt is primary cause.

Client (Government and Private individual) non payment caused the failure (external cause)

The reason for the inclusion of this question: “What caused the failure of your business?” was to determine what caused the business to go into business rescue from the perspective of the manager, thus providing a definition of the failure that occurred.

Percentage of respondents that commented on this theme = 63%.

Five of the respondents found that the non payment of debtors resulted in the final collapse of the organisation. In these cases the respondents saw their organisations as having no real threat prior to this non payment of debt taking place.

Table 5.5

Selected responses from the theme: Bad Debt

- *“A second change was that of customer ethic in that customers who used to pay their accounts on time now fell in arrears and new customers weren't as good at paying their accounts as the older customers.”.*
- *“In January supply to the government was suspended (60% of the demand) as they were not paying.”*
- *“The City of Cape Town did not want to pay our prices as they wanted to pay only the SIFSA price. This resulted in the City of Cape Town not paying us for services rendered..*
- *“This was the last payment we received from them for 6 months and that destroyed our credit.*

Theme 2: Lack of General Management skill was the secondary cause (Internal cause)

In addition to bad debt a lack of general management skill as was seen as a secondary cause of failure. Relating to general management skills, four respondents mentioned the following: turnover did not increase as forecasted and as a result the cash flow

suffered; insufficient debt collection practices were in place; or inadequate business models reliant on inappropriate infrastructure were used.

Percentage of respondents that commented on this theme = 50%

Table 5.6

Selected responses from the theme: Lack of general management skill.

- *“I first realised there is a problem when the turnover that we thought we would generate as a result of refurbishing our stores did not materialise”..*
- *“A fourth issue was that we were unable to collect on our debtors. This, coupled with the reduction in turnover is what caused our downturn” ..*
- *“The IT was contracted out and our fixed cost was exorbitant, as debt collection is a volumes game, one cannot afford to have such high overheads, along with an IT system that did not support the business model.”..*

5.3.1.2 Evidence of prior learning

Theme 3: Learning from previous failures

The reason for including the question: “Have you had a similar failure brought about by a similar action in the past?” was to determine whether respondents had experienced previous instances where the same mistake was made thus shedding light on if there was learning from previous failures.

Percentage of respondents that commented on this theme = 88%.

Only one of the eight respondents has had a similar failure brought about by a similar action in the past. It thus seems as if this one respondent did not learn from past failure.

Table 5.7

Response: Learning from previous failures was evident

- *“Yes, I had a similar instance some years back with where I also realised that the cost of borrowed capital is much higher and more risky than using my own capital”.*

5.3.1.3 **Corrective action considered**

Theme 4: Operational restructuring/enablement seen as first solution.

The reason for including the question: “What was your reaction to this problem?” was to ascertain what actions owners took as a result of previous learning and shows if learning from other mistakes was applied through attempted corrective action.

Percentage of respondents that commented on this them = 63%.

Five of the respondents considered operational restructuring including cost reduction as their first response to failure.

Table 5.8

Selected responses from the theme: Operational restructuring/enablement seen as first solution.

- *“We closed a couple of stores but the issue was the staff in that as there was no retirement policy, they had nowhere to go and this kept our overhead high, even though we closed the stores that they were working in”..*
- *“We continually reviewed processes cost saving and efficiency drives were undertaken. People focus was gained through providing each person with an actual target for collecting. KPA’s were set to drive performance, quality controls were put in place.”.*
- *“We also implemented tight cash flow control, proper weekly info generation and reviews, cost info generated and used as basis for price settings”..*

Theme 5: Seeking External Help

Seeking external help was seen as a secondary alternate first response to failure.

Percentage of respondents that commented on this theme = 75%.

Six respondents considered informal meetings with creditors and debtors, or going into business rescue as a secondary alternate response to failure.

Table 5.9

Selected responses from the Theme: seeking external help

- *“We also spoke to the landlords in Sandton City and Eastgate”*

- *“I took multiple actions to address the problem like collecting the money that was outstanding to enhance our liquidity. I spoke to banks and various creditors, as well as the shareholders. I wanted to create additional headroom but most importantly I wanted the money that was owed to us by our debtors”.*
- *“I realised Business rescue was needed within three months of being in the company. I approached the board with the idea of going into business rescue”..*
- *“If we went into BR and we could address the IT change and we could close the branches so the cost structures could be changed, we could do everything we wanted to do, but we did not have the capital for it”*
- *Realisation that “I needed help”.*

5.3.1.4 **The learning requirement and point of realisation**

Theme 6: Insufficient skill to resolve own problem

The reason for asking this question “What elements of this problem do you feel you could have resolved yourself if you had the knowledge?” was to ascertain whether the owner felt that their previous learning could have enabled them to resolve their own problem. This indicates that there was no relevant previous learns to appropriate.

Percentage of respondents that commented on this theme = 63%.

The respondents in this section commented that their lack of knowledge pertaining to the design of employment contracts, IT strategy, Management information, Macro environmental drivers and sales forecasting caused them to fail.

Table 5.10

Selected responses from the theme: The respondent did not have the skill to resolve the problem.

- *“Setting up the employment contracts with a mandatory retirement age was the reason why the employees did not leave the business even though we closed branches”..*
- *“I would not have rolled the IT system out to all the branches at the same time as this caused the big problem”..*

- *“I would have wanted to resolve the Management information part of the problem. The business was information poor and this impacted on how the CEO ran the company.”...*
- *“If I had known to consider the political environment”...*
- *“The problem lay with our forecasting of sales volumes, but with the experience and expertise we all had we thought we were safe”..*

Theme 7: Business rescue as an Initial Option

The reason for asking the question, “What did you do when you realised you could not solve the problem yourself?” was to ascertain if business rescue was seen as a viable solution once the managers’ own solution did not remedy the problem.

Percentage of respondents that commented on this theme = 50%.

In the instances where business rescue was not seen as a solution the owners were informed by third parties to consult a business rescue practitioner.

Table 5.11

Selected responses from the theme: Business rescue as an initial Option

- *“Within three months I decided that business rescue would be the only way to resolve this problem.*
- *“We went into voluntary business rescue”.*
- *“I decided to follow the advice I was given an go into business rescue”.*
- *“I did research on business rescue and decided that that was the thing to do”.*

Three of the respondents were advised to enter into business rescue as evident from the quotes in table 5.12

Table 5.12

Selected responses from the theme: business rescue as an Initial option

- *“In 2011 we went to our labour lawyer as the new Consumer Protection Act as well as the labour law was foreign to us and we needed a way of reducing our staff costs. I never knew that there was an option of going into business rescue. We had a compliment of long working loyal staff which I could not face.”*

- *“We took legal advice and we were told that we had no choice but to go under business rescue”...*
- *“Our accountant spoke to us and he said to talk to someone who dealt with problems like these. He referred us to a consultant who tried but could also not help us. Finally the consultant recommended that we go the Business rescue Path”.*

5.3.2 Learning from failure prior to entering business rescue: Practitioners view

This section seeks answers to the third proposition which states:

Proposition 3: Learning during the pre-business rescue phase did not take place as the incumbent was unaware that he / she had to adjust their approach to managing the business relevant to the severity of the business failure situation.

The questions in this section have relevance to the learning that was gained by the manager as seen by the business rescue practitioners prior to going into business rescue. The section has as its aim to establish what the business situation was like when the business rescue practitioner joined the organisation as well as if the practitioner viewed the managers as having learnt from previous experience. As can be seen from table 5.13, three themes were identified relevant to the third proposition.

Table 5.13

Learning Prior to entering business rescue (Practitioners View)

Learning prior to entering Business Rescue (Practitioners View)			
Question	Response	Theme	Who
What is the situation when you get involved .	Theme 8. Get to the business to late to make real change	86%	1,2,3,4,5,7
	Low hanging fruit are Costing , Pricing, Budgeting	29%	1.6
	Owners do not know when to let an idea go (throwing good money after bad)	14%	1
	Inappropriate acquisition were made	14%	1
	Board is in a state of denial re the extent of the problem	14%	1
	Production has ceased as a result of not having the funds	14%	2
	There is a real chance of pulling back the business by using the appropriate business methodology	14%	6
	Why do you think owners of the companies do not learn from their previous experience ?	Theme 9. The impact of a global market change not being seen as impacting the owners business	57%
Inability to change when customers , suppliers, demands, delivery channels change .		57%	2.3.4.7
Theme 10. Inadequate business acumen to see the mistake		57%	2. 5.6.7
Arrogance and not seeing that they made a mistake		29%	1.3
Blame market, supplier, the government.		14%	1
Lack of planning		14%	1
Management is in denial		14%	3
Biased view of their product		14%	4
Tomorrow will be a better day		14%	4
Inadequate Financial training to see the problem		14%	5
Ill prepared to manage the business life cycle (growth , maturity , decline)		14%	7

5.3.2.1 Lack of proactive help seeking

Theme 8: The Business rescue practitioner Involvement is delayed

The reason for asking the question, “What is the situation when you get involved?”, was to understand from the business rescue practitioner if their help was sought well in advance of it being required so as to verify that the owner of the business understood that his/her previous learning would not aid in avoiding failure.

Percentage of respondents that commented on this theme = 86%.

The business rescue practitioners held the view that they were called in too late to rescue the businesses.

Table 5.14

Selected responses from the theme: the Business rescue practitioner Involvement

- *“I get involved in the time when the board is normally in a state of denial and most of the times we get on the bus too late”.*
- *“The problem with Business rescue is that Business rescue happens too late in the distress cycle, the earlier you get involved in the process the easier it is to resolve the issues, the measurement of to what extent the market believes in your business plan is the extent to which you can acquire post commencement financing”.*
- *“By the time I meet with them it is often too late, we are often then already in crisis management phase where there isn't enough money to pay creditors or where payments have been missed, SARS is normally one of them, they normally have made promises to creditors that they now can't keep, this is too late a stage to get involved”.*

5.3.2.2 Inability to change and lack of business acumen

The reason for asking the question, “Why do you think owners of companies do not learn from prior experience?”, was to ascertain what business rescue practitioners believed the reasons for managers lack of learning from previous experiences were. Two themes emerged.

Theme 9: Managers Inability to React to Change

Business rescue practitioners identified four reasons relating to the inability of the manager to identify the need for change and to react to it: seeing the impact of the global economy on their business reluctance to change when customers, suppliers, demands and delivery channels change; management is in denial; and tomorrow will be a better day..

Percentage of respondents that commented on this theme = 57%.

Table 5.15

Selected responses from the theme: owners' Inability to react to change

- *“I think they do but the difficulty is that they have not adapted to a global world”*
- *“They don't learn because they do not want to be told they are wrong. The Managers have certain practices that come over time and someone does not change their style just because you say so”.*
- *....” they often don't take cognisance of the changes in the environment , they have a biased view of the product or the customers”.*

Theme 10: Lack of Business Acumen

Four business rescue practitioners identified that some owners lack business acumen in so far as the following: they demonstrate inadequate business acumen to see the mistake; lack of planning; inadequate financial training to see the problem; they blame the market, the supplier or the government; they have a biased view of their product; and they are ill-prepared to manage the business life cycle.

Percentage of respondents that commented on this theme = 57%.

Table 5.16

Selected responses from the theme: Lack of Business Acumen

- *“Limited learning happens as the owner / CEO is in denial , the management thinks they are always right”*
- *“Many people have a passion for the industry within which they work but don't necessarily have a clue how to run their business this is because they have not had training in how to financially manage the company and if you don't know how to manage your books you won't be a success”.*
- *“Additional to this business management is what is lacking often the company is in trouble not as a result of the industry but as a result of the lack of knowledge about how to manage the business”.*
- *Many people have a passion for the industry within which they work but don't necessarily have a clue how to run their business this is because they have not had training in how to financially manage the company and if you don't know how to manage your books you won't be a success”.*

5.3.3 Learning from failure during business rescue: Manager's view

This section seeks answers to the fourth proposition which states:

Proposition 4: Learning during the business rescue process is higher (in comparison to the instance of learning prior to or after the instance of business rescue) than during any other phase in business rescue as the manager understands that learning is critical to achieving business turnaround.

All of the questions in this section have relevance to the learning that was gained by the manager during business rescue. The section has as its aim to establish if there was immediate learning, whether learning took place at all, the impact of business rescue on the organisation, and if learning took place why it was possible. As can be seen from table 5.17, three themes were identified relevant to the fourth proposition.

Table 5.17
Learning During the Business rescue process

Learning during the Business Rescue process			
Question	Response	Theme	Who
What changes did the business rescue practitioner make that surprised you?	Theme 11.		
	None	75%	BDEFGI
	Concentration on cash flow by reducing cost	25%	H
	Change to infrastructure	13%	C
	Create and use Management information	13%	H
What impact did this have on the organisation and why?	Set in place targets and measurements	13%	H
	Caused the company to fail	25%	EG
	More operational management and cost focus	25%	FH
	Created room to breathe	13%	B
	Ability to now pay staff was a relief	13%	C
	little impact as the business plan was already designed prior to going into business Rescue	13%	D
	Change in some of the functions that people were performing	13%	F
Did you gain any learning from the process while the business rescue practitioner was managing your business?	Staff Resignation	13%	I
	Theme 12.		
	Learning about the business rescue Process itself	63%	BCDFH
What did you learn from the business rescue practitioner	No	38%	EGI
	How to stop the flow of cash out of the business, through the use of Management information, General management , looking at the facts	38%	BHF
	Negotiations skills (creditors, bank)	25%	BD
	Value of communication with stakeholder	13%	C
	How to motivate staff during the process so as to retain them	13%	D
	Liquidation law	13%	D
Why was it possible to learn from the business rescue practitioner	Frustrating and unhappy experience	13%	E
	Theme 13.		
	Dependency on the Business rescue practitioners skills to solve a problem for which I did not have the skill	63%	BCDFH
What would have helped you to learn more from the business rescue practitioner	It was not possible	37%	EGI
	Nothing	25%	CH
	Better legal team as part of the process	13%	D
	If the business rescue practitioner had a better understanding of the industry	13%	E
	If I felt I had made a mistake	13%	F
	If I could trust the business rescue practitioner	13%	G
	If there was less of a distance between us and the practitioner	13%	I
More time with the Business Rescue practitioner	13%	B	

5.3.3.1 *The learning experience relevant to the practitioner and his process*

Theme 11: Changes implemented by the business rescue practitioner were expected
The reason for asking the question, “What changes did the business rescue practitioner make that surprised you”, was to ascertain if there was immediate learning as a result of the practices that were implemented

Percentage of respondents that commented on this theme = 75%.

Six of the respondents claimed that the changes made by the business rescue practitioner were to be expected. Of the respondents that were surprised by the changes that were implemented, the changes ranged from reducing cost, changing infrastructure, creating more management information or setting measurements in place.

Table 5.18

Selected responses from the theme: expected business rescue changes

- *“The changes the Business rescue practitioner made were relevant to the Business rescue process in terms of the Networking and legalese relevant to the Business rescue process”.*
- *“None. He focussed on the legal aspects of the companies act and acted like a liquidator more than a business rescue Practitioner”.*
- *“His approach did not surprise us - he only did the admin (legal) side and we knew what we needed to do on the operational side, so we did that”.*
- *“None , what he did do was take actions that I knew I should have taken but didn't , He did the normal cost cutting , debt restructuring”.*

Impact of the business rescue Changes

Although a theme did not emerge in response to the question, “What impact did this (the business rescue changes) have on the organisation and why?”, three of the respondents blamed the business rescue changes for the company failure and staff resignations, while another respondent claimed that it made no difference. However, four of the respondents did respond positively.

Theme 12: Learning from the business rescue process

The reason for asking the question, “Did you gain any learning from the process while the Business rescue practitioner was managing your business?”, was to ascertain

whether there was any learning that took place during the process of business rescue , irrespective whether it aided in learning that was relevant to the failure.

Percentage of respondents that commented on this theme = 63%.

Five of the respondents affirmed learning gained about the business rescue process itself. The same three respondents that claimed that the business rescue had a negative impact, stated that they had not learnt anything from the business rescue process.

With regard to the question, “What did you learn from the business rescue practitioner?” four of the five respondents who had gained some learning, mentioned that their learning pertained to cash flow management, utilisation of management information, motivation of staff, general management skills, negotiations and communication with stakeholders.

Table 5.19

Selected responses from the theme: learning from the business rescue process

- *“I learnt from the actual process of Business rescue and how it works. What I learnt was not how to turn it around, but how to close it down while saving as much as possible to give back to staff and how to maximise the assets. I learn as there was time to listen and we had a plan that could save our staff”..*
- *“The importance of communication on all levels and to all stakeholders”..*
- *“Firstly I gained an understanding of the legal part of the business rescue process. Secondly I learned the value and alternative approach to negotiations. Thirdly I learnt about the liquidation law and the process that is followed there. Lastly I learned about the emotional process that the staff, the shareholders, the management team goes through throughout the process. You would like to retain good staff however the staff lose confidence and then they leave. The learning related to how to keep staff motivated - I learnt a lot about people in this process”.*
- *“Immense understanding of business, controls, measurements and management. I was never taught to lead a company”.*
- *“Nothing, I learnt that you could not trust the business rescue practitioner and that you should interview him before you appoint him”.*

- *“Nothing, what I did get was that the business rescue process put me in a place where I had time to make some changes and that I could go talk to my creditors”.*

Theme 13: Learning from business rescue practitioner skills

The reason for asking the question, “Why was it possible to learn from the business rescue practitioner?”. Was to understand why learning took place during the time of business rescue rather than before.

Percentage of respondents that commented on this theme = 63%.

The same five respondents, who had claimed a positive impact on the business as a result of the business rescue intervention, were of the opinion that they had learnt from the business rescue practitioner as he/she had the required skills. The three respondents, who responded negatively to the business rescue impact, claimed that they did not learn anything from the business rescue practitioner.

Table 5.20

Selected responses from the theme: learning from business rescue practitioner skills

- *“I learn as there was time to listen and we had a plan that could save our staff”*
- *“The fact that you know you are dependent on the business rescue practitioners skill to get your business case approved”.*
- *“A combination of the state the environment was in as well as where I was at , as there was a need for it”.*
- *“ He was knowledgeable in his field”.*
- *“The fact that you could not make it work and you know you made mistakes helps you focus on the person who can make it work to teach you how. We saw the practitioner through each of his actions to be competent in all the things that we lacked and that made it easy to learn from him”.*

With regard to the question, “What would have helped you to learn more from the business rescue practitioner?” a specific theme did not emerge, though the responses tended to revolve around the issue of trust.

5.3.4 Learning from failure during business rescue: Practitioners view

All of the questions in this section have relevance to the learning that was gained by the manager as seen by the business rescue practitioners during business rescue.

As can be seen from table 5.18, one theme was identified relevant to the fourth proposition:

Table 5.21

Learning during the business rescue process. Practitioners View

Learning during the Business Rescue process. Practitioners View			
Question	Response	Theme	Who
What do you think owners learnt during the business rescue process	Theme 14. General Management skill is transferred (Controls and debt management)	57%	3.4.6.7
	Very little as they do not own the mistake that they have made.	43%	1.2.5
	Learn the need to make decision that are difficult	14%	3
	The quicker the business is placed in business rescue the better the possibility is of learning during the process	14%	3
	It is possible to make mistakes and still retain your business	14%	4
	To take advise form professionals	14%	4
	The value of appropriate stakeholder engagement	14%	4
	You have to change to stay in business	14%	5
	The value of measuring everything	14%	6
	Not to make debt	14%	7

5.3.4.1 Skills transfer

Theme 14: General Management skill transfer

The following question was asked: “What do you think owners learnt during the business rescue process? The purpose of this question was to accretion from the practitioner if the managers learnt during the process.

Percentage of respondents that commented on this theme = 57%.

Two schools of thought are evident: Four of the seven business rescue practitioners believe there to be a transfer of general management skills, such as the

implementation of controls and debt management, while three believed that the managers learnt nothing as they do not own the mistake.

Table 5.22. Selected responses from the theme: General Management skill transfer

- *“In some cases yes they learn how to better run their business, but in most cases no I do not think they learn anything so”.*
- *“They learn to make decisions that they don't want to make (the selling of assets, divisions, the letting go of non essential people). Now the entrepreneur is forced to make decisions that he was scared to make but now he is forced by the business rescue practitioner to make them. The person learns about controls, debt management. Management skill is transferred”.*
- *“they learn to take a much closer look at what the numbers say, that you need to take advice from people and learn from them as they are professionals for a reason. Learn the value of speaking nicely to the bank and your own employees. Learn that there is a certain manner with which you approach creditors and that being open and transparent and having a clear view of the way forward helps, to engage with people is better than running away from them”.*
- *“Due to the fact that the Business rescue practitioner is highly skilled either a CA or an attorney they will be able to pass a lot of knowledge to the owners which they did not have in the past or which they did not have access to. They learn good business ethic, business management techniques, the value of measurement of companies, and the value of a hand on approach. It teaches them a skill that they did not have”*

5.3.5 Learning from failure after business rescue: Managers view

Table 5.23

Learning after business rescue

Learning after Business Rescue.			
Question	Response	Theme	Who
Why do you believe this outcome was achieved (success or failure)	Theme 15. Practitioner had the know how to resolve the problem	50%	BDCH
	Appropriate allocation of capital	25%	CI
	Better communication	13%	C
	Better infrastructure setup	13%	C
	Practitioner and team had a meeting of the minds	13%	D
	Time allowed us to upgrade the system to provide MI	13%	F
	Third party influence and lack of follow through by buyers	13%	H
What hampered / enabled learning	Nothing	25%	BF
	The practitioner hampered the process	25%	EG
	The process had to be a success for there to be a future	13%	C
	Creating an environment where staff could be accountable	13%	D
	Not having enough time with the practitioner hampered the process	13%	H
What did you learn	Distance between practitioner and owner	13%	I
	The business rescue process gave us time to build a new plan and breathing room due to the moratorium	13%	B
	Moratorium on payments as a result of the process	13%	B
	Individuals who cant fit into the changed culture should be removed	13%	D
	People needs to be supported through the process	13%	D
	The Liquidation philosophy is different from the business rescue philosophy	13%	D
	The success of the business rescue is in part dependant on the practitioners skills	13%	D
	Business rescue practitioner has to have industry experience in order to be successful	13%	E
	In future I will contract differently with staff	13%	B
	Will change the client segment I focus on	13%	B
	Our business model became obsolete and we should have changed it	13%	B
	Launching and IT system to all branches at the same time is a mistake	13%	C
	Having an impartial person to turn the business around makes business sense	13%	C
	Empowerment enables growth	13%	D
	Changing the culture of a company does not happen overnight	13%	D
	People that learn from old mistakes will be successful	13%	D
	Learnt more about running a business	13%	F
	Minute the discussions in meeting	13%	G
	When loosing financial managers replace them	13%	H
	Use capital more appropriately	13%	H
Leave an amount of money for contingencies	13%	H	
Use own capital in stead of capital from banks	13%	I	
Plan more in detail when planning an expansion	13%	I	
Learning Relevance	Learning relevant to the business rescue process not the failure	25%	
	Theme 16. Learning relevant to failure	75%	
When did you realise this	Before and During the process of Business rescue	63%	CDEFG
	During and after the process	38%	BHI

5.3.5.1 *The final verdict and learning's longevity.*

This section seeks answers to the Fifth proposition which states:

Proposition 5: Learning generated through business rescue does get applied to future situations given the context is relevant.

Theme 15: A positive outcome was achieved as a result of the knowledgeable practitioner

The question “Why do you believe this outcome was achieved (success or failure)” was asked to clarify if the learning took place as a result of the extent to which the owner valued the practitioner’s skill.

Percentage of respondents that commented on this theme = 50%.

Only in one instance did the owner of the business experience learning from failure while not seeing the practitioner as knowledgeable.

Table 5.24

Selected responses from the theme: A positive outcome was achieved as a result of the knowledgeable practitioner.

- *“He had the process needed to resolve the problem”...*
- *“The Business rescue practitioner and the management team got on well as there was a meeting of the minds. There was limited interference in the plan as we saw it however the plan was agreed to by the practitioner which gave everybody confidence. The practitioner's experience and approach to his work was unmatched”.*
- *“Appropriate allocation of capital, having two sites, better communication and an IT system that works and that does not constitute 18% of my operational spend”.*
- *“..his financial and business acumen is what saved us. His ability to draw up a business plan and make us work long hours to learn from the process was what made the process one of learning”.*

Based on the feedback received learning was enabled by the extent to which the manager perceived the business rescue practitioner to be more knowledgeable than themselves. This perceived knowledge ability was impacted by the relationship that the two parties had as well as the extent to which there was mutual respect.

The lessons learnt applicable to the failure ranges from how to contract with staff, the implementation of IT systems, empowerment and general management to the use of capital and the benefit of planning.

Theme 16: Learning from failure occurred

This question: “What was your learning relevant to” was asked as an overall learning from failure question and has no relevance to the Business rescue practitioner competence.

Percentage of respondents that commented on this theme = 75%.

Table 5.25

Selected responses from the theme: learning from failure occurred.

- *“...the way in which we broke up and paid the businesses off worked, it was the best outcome for the business model”.*
- *Another lesson is that there is no loyalty in that customer now looks at imports from China as an alternative”.*
- *“Launching a system country wide in one swoop was a mistake. Secondly having an impartial person to turn the business around helps in making decisions that are not motivated by emotions”.*
- *One has to manage your people through the process and make sure you support them as without the human resources you have nothing. People that learn from new and uncomfortable situations will be successful”.*
- *“I learnt not to take people's word and that I should have asked for the minutes of the meeting when I had the first meeting”.*
- *“I should have not used all of it. I should have saved R1m for eventualities. I also learnt that the time given to construct the business plan is too little as I learnt how to manage a business during this time”.*

- *“Use more of your own capital as using other capital could cause you to lose everything you have worked for in the blink of an eye. Plan better, and plan even the smallest of details”.*

In response to the question “when did you realise this learning?” five of the respondents took place before and during the process of business rescue while three respondents learnt during and after the business rescue. They all seemed to learn during the business rescue process. The realisation of learning corresponded with the owner’s perceived need and to the extent to which the opportunity to learn and the teacher presented itself

5.3.6 Learning from failure after business rescue: Practitioners view

All of the questions in this section have relevance to the learning that was gained by the business rescue practitioner, the section had as its aim to establish if the practitioner saw themselves as having learnt from their own as well as others’ failures. As can be seen from table 5.26 the themes identified were similar to those captured in theme 16

Table 5.26
Learning after Business rescue, Practitioners View

Learning after Business Rescue . Practitioners View			
Question	Response	Theme	Who
What have you learnt in the process	Biggest mistakes is 1) The lack of financial management 2) business acumen 3) Lack of planning 4) Lack of critical analysis	57%	3.4.6.7.
	Before taking a business rescue matter to do due diligence to understand what the chances of success is	43%	1.4.6
	Chance of saving the business will be dependant on the thought by the owners put into correcting previous mistakes	29%	1.4
	Business rescue process has to be proactive for it to be successful	29%	2.7
	Not all solution are unique	29%	3.5
	The same CEO that runs a company successfully now might not be able to be successful in 5 years from now	14%	2
	There has to be a match between the company and the CEO as not all CEO's can run all companies and the other way around	14%	2
	Difference between professional manager and non professional manager ito how much they learn	14%	4
	Current Credit law and corporate law still needs to be adjusted to make a place for Chapter 6	14%	5
	The more business rescues I complete the quicker I see the problems in a business	14%	5
	Measurement is everything	14%	6
	Accountability is the key to management effectively	14%	6

Continuation of the theme highlighted in theme 16

The reason for this question was to understand from the practitioner who deals with the correction of failures on a daily basis to what extent they themselves have learnt from their own as well as from others failures.

Percentage of respondents that commented on this theme = 100%.

All of the business rescue practitioners commented on how they on a continual basis learn from the mistakes that has been made as well as how they learn from their own mistakes. Evidence of this can be found in how 43% of them do a pre screening due diligence with their prospective customers to see if there is value in attempting a business rescue.

Table 5.27.

Selected responses from the theme: learning from failure occurred.

- *“I learn something every day in doing this relevant to each company I engage in. I have learnt to never take on a matter without having done a careful assessment on the matters chances for success. As the chances of success will determine the extent to which there has been thought put into how to move the company i.e. it refers to the recognition of having made a mistake”.*
- *“As business rescue practitioner and as liquidator you learn from the mistakes that other people make in an ongoing fashion. Each company has a unique set of problems however often the same solution that is used in one company can be used in another”.*
- *“I have learnt that the practicality of how to run each business remains the same. I can now see problems in businesses as well as their solutions much easier. I think the process has been valuable and we have to wait and see if the stat on liquidation comes down”.*
- *“You learn something from each turnaround what I have learnt the most is that measurement is everything, second that there needs to be accountability and thirdly that having a silo mentality does not work”.*

5.4 Conclusion

Evident from the result discussed in this chapter is that learning from failure does occur and that clear themes can be identified relevant to the learning that takes place in each stage of the business rescue process. What is also of interest is how business rescue practitioners view their learning as being different to that of the managers. These Findings will be analysed according to the relevant literature in chapter 6.

CHAPTER 6: DISCUSSION OF RESULTS

6.1 Introduction

In this chapter the findings from the research will be discussed as it pertains to each of the five propositions. Themes relevant to each proposition as identified in chapter 5 will be used to clarify the relevance of the propositions stated in chapter 3. The proposition and theme will then be tested against the theory highlighted in chapter 2. In all instances the feedback relevant to the manager of an organisation and the business rescue practitioner will be highlighted separately albeit under the same proposition so as to provide an additional and sometimes alternate view on the proposition. After discussion of these findings a model will be introduced that will enable the understanding of what preconditions enable learning from failure.

6.2 Learning from Failure Prior to Business Rescue

Proposition 1: The board of directors should provide the insight gained from experience and prior failure to prevent the business from going into business rescue.

The results in Figure 5.2 and Table 5.3 show that in only 25% of the cases did the board members add insight into how to better operate the organisation to prevent it from going into business rescue. The literature relevant to this topic concurs with this view as Mellahi (2005) listed six reasons including ignoring signals, being unaware of the magnitude of the crisis, and lack of understanding of the strategy as reasons for why this would be the case.

Proposition 2: The identification of the cause of the business failure will determine the action taken by the manager of the organisation.

Three themes relevant to this proposition emerged:

Theme 1: Bad Debt, Government and Private individual non payment caused the failure (external cause).

Theme 2: Lack of General Management skill caused the failure (internal cause)

Theme 4: Operational restructuring/enablement seen as first solution.

The data in Table 5.4 shows that the cause of failure was primarily seen as being external in nature and secondary, as being caused by internal inefficiencies. This resulted in operational enablement practices as opposed to strategic practices being put in place to attempt turnaround in 63% of cases. Strategic response in this instance is seen as an attempt to alter the direction of the organisation relative to its customers, its product or its footprint. Barker and Barr (2002) found that managers who attribute decline to internal sources as opposed to external sources are more likely to engage in greater levels of strategic reorientation to prevent decline. The findings therefore correspond to that of Barker and Barr (2002) in that strategic reorientation was seen as a secondary course of action given that the cause of the failure was primarily seen as external.

Proposition 3: Learning during the pre-business rescue phase did not take place as the incumbent was unaware that he / she had to adjust their approach to managing the business relevant to the severity of the business failure situation.

Six themes relevant to this proposition emerged:

Theme 3: Learning from previous failures.

Theme 5: Seeking external help is an alternate first response to failure

Theme 6: Insufficient skill to resolve own problem

Theme 8: The business rescue practitioner involvement is delayed

Theme 9: Managers' inability to react to change

Theme 10: Managers lack business acumen

From the findings in Table 5.4 it is evident that learning from failure prior to business rescue did take place as in only one instance did the manager not learn from a previous failure. Additionally, the evidence provided by theme 5 and 6 relative to the manager's understanding that their lack of self employed knowledge and resultant search for external advice indicates that learning did occur. This is supported by Shepherd (2003) who defined learning from failure as: "Learning from business failure occurs when they can use the information available about why the business failed (feedback information) to revise their existing knowledge of how to manage their own business effectively (self-employed knowledge) – that is to revise the assumptions

about the consequences of previous assessments, decisions, actions, and interactions” (P321).

The proposition is however refuted by the business rescue practitioner’s views in table 5.13 which shows the following themes.

Theme 8 indicates that business rescue practitioners get to the organisation too late to make any real change. The indication here is that learning from previous failures did not result in a quicker realisation that self employed knowledge was not sufficient. This lack of sufficient realisation of need can therefore be seen as a lack of learning from previous failure.

Themes 9 and 10 indicate that business rescue practitioners believe that managers do not learn from their failures prior to going into business rescue and that a reason for their failure is a lack of business acumen. The reasons given by the business rescue practitioners in Table 5.13 as to why managers do not learn from failure is mirrored in the work of Cannon and Edmundson (2005) on Technical barrier theory which states that what would complicate learning post failure and the application of that learning to future scenarios is if a person has an innate inability to process data and to gain learning from that data.

Proposition 3 is therefore corroborated by the result identified in Theme 3, 5, and 6. However, it is placed in question by the results identified in Themes 8, 9 and 10 relative to the extent of learning that took place. A new proposition relative to the extent of prior learning from failure and the impact it has on the realisation that external help is needed has to be developed.

6.3 Learning from Failure During Business Rescue

Proposition 4: Learning during the business rescue process is higher (in comparison to the instance of learning prior to or after the instance of business rescue) than during any other phase in business rescue as the manager understands that learning is critical to achieving business turnaround.

Five themes relevant to this proposition emerged:

Theme 11: Changes implemented by the business rescue practitioner were expected.

Theme 12: Learning from the business rescue practitioner during the process of business rescue did occur.

Theme 13: Learning was possible as the business rescue practitioner had the required skill.

Theme 14: General Management skill is transferred during the process of business rescue.

Theme 15: A positive outcome was achieved as a result of the knowledgeable practitioner.

Proposition 4 is supported by all the themes depicted in Table 5.14 and 5.18

Seen in the light of later findings it would be easy to assume that learning occurred simply as a result of the business rescue practitioner being seen by the managers as being 'sage like' bringers of knowledge that should not be questioned. However, given the data in Theme 10, table 5.14 it is evident that the initial changes the business rescue practitioner made did not surprise the managers and as such, it was not something that could have been learnt.

The fact that the business rescue practitioners are not automatically seen as the source of all knowledge is proven when later in the process; learning from the business rescue practitioner did take place as the learning was relevant and customised to the manager's particular failure (Theme 11). This is supported in the literature by Pretorius (2008b) who points out that each turnaround situation demands a unique strategy, supported by specific practices. It can therefore be argued that learning from failure can only be achieved if the cause of failure is seen by the person that caused the failure as being addressed by a customised solution.

In addition to the customisation, what aided the learning from failure most was the manager's dependence on the business rescue practitioners skill to solve a problem for which they themselves did not have the skill (Themes 12 & 14). This realisation of failure and the requirement for new learning as well as that solutions are iterative, is supported by literature on organisations learning expert Dr P. Senge who says: "Today's problem comes from yesterday's solution", (p. P57) (Senge, 2006) indicating that learning is constant.

The business rescue practitioners are also in agreement that learning does indeed take place during this phase of the process and only names this period during business

rescue as being a time when learning from failure does indeed take place in the form of the transfer of general management skill which they state as the primary reason why businesses fail (Themes 9 & 13). Literature by Wilkinson and Mellahi (2005) supports the notion that learning from failure can occur if the barriers to learning from failure (in this case lack of knowledge and credibility of the practitioner) can be identified and avoided. This then supports the proposition that learning from failure is increased during the business rescue process.

6.4 Learning from Failure After Business Rescue

Proposition 5: Learning generated through business rescue does get applied to future situations given the context is relevant.

Only one theme relevant to this proposition emerged:

Theme 16: Learning from failure occurred

The information in Table 5.23 shows that 75% of learning that took place was directly related to the reason that caused the business to fail. Of relevance is that this realisation occurred before or during the process of business rescue indicating that it was not solely as a result of the business rescue process. This finding contradicts the literature that states that “the learning that should follow failure often does not occur, and when it does occur, it often teaches the wrong lesson” (Baumard & Starbuck, 2005, p 295).

Given that the majority of these business rescue instances are only now in the process of completion it is difficult to gauge the extent to which this learning will result in the avoidance of future failures. However, given the clarity with which failure and new learning can be linked by the participant it is more than likely that the learning will remain.

6.5 Biases and Limitations of the Research

Biases is defined as “any influence, condition, or set of conditions that singly or in combination distort the data”(Leedy & Ormrod, 2013, p. 217).

The bias that has distorted the data within this study is mentioned below.

Sampling bias was experienced because all participants in this research were customers of one financial institution.

Furthermore, participants were more focussed on providing information relevant to business rescue than to the learning gained from failure, while the principle of identifying business rescue as the failure event was explain large portions of the interviews responses were relevant more to business rescue and the business rescue practitioner engagement than with learning. This resulted in far more information being shared by the participants relevant to the business rescue practitioner, his personality, and the nuances of the process that to that of learning from failure.

The business rescue practitioners were biased towards their own ability to learn compared to that of the managers. This caused animosity between the business rescue practitioner and the managers as the managers believe that while they can learn from failure (see table 5.26) they do not believe that managers have similar capability (See Theme 10).

Those managers who had positive experiences saw the value of the business rescue practitioner while those managers who had negative experiences saw little value in the business rescue practitioners, even though learning from failure took place as a result of the process.

As the business rescue practitioner comes into the business because there was a failure, he/she automatically assumes the manager as having less skill and therefore as being inferior. This impacts the relationship from the onset.

The researcher was biased towards indicating that learning from failure as a result of the business rescue was possible in the context of business rescue. This bias increased as his understanding of the scope of the distress and possible learning was expanded as a result of the interviews with both managers and practitioners.

6.6 New Propositions Based on the Results of the Research

The results of this study (Themes 3 and 5) indicate that learning from failure does indeed take place however it does not provide clear insight into what level or the extent of the learning needed in order to ensure timely action is taken. Therefore, the new proposition would be:

New Proposition A: The greater the extent of prior learning from failure the quicker the incumbent will realise external help is required

The results of this study indicate that learning from failure is dependent the business practitioner's skill. However, (Theme 13) does the level of skill impact the extent and speed of learning? Therefore, the new proposition would be:

New proposition B: The greater the level of skill the business rescue practitioner has relevant to the industry that the manager is in will determine the extent and the speed at which learning from failure takes place.

Table 5.23 indicates that learning from failure did take place relevant to the failure that caused the business decline. However, further research is needed to clarify to what extent the learning from failure is relevant to the root cause of the business decline. Therefore, the new proposition would be:

New Proposition C: The extent to which learning relevant to the root cause of the problem/s is experienced is directly proportional to the extent to which the root cause of the failure is identified.

While no reference was made to the time required to learn from failure, reference was made by the managers that the time needed to complete the business plan was limiting in that it disallowed learning more from the business rescue practitioner. Relevant to this comment then, the following proposition is:

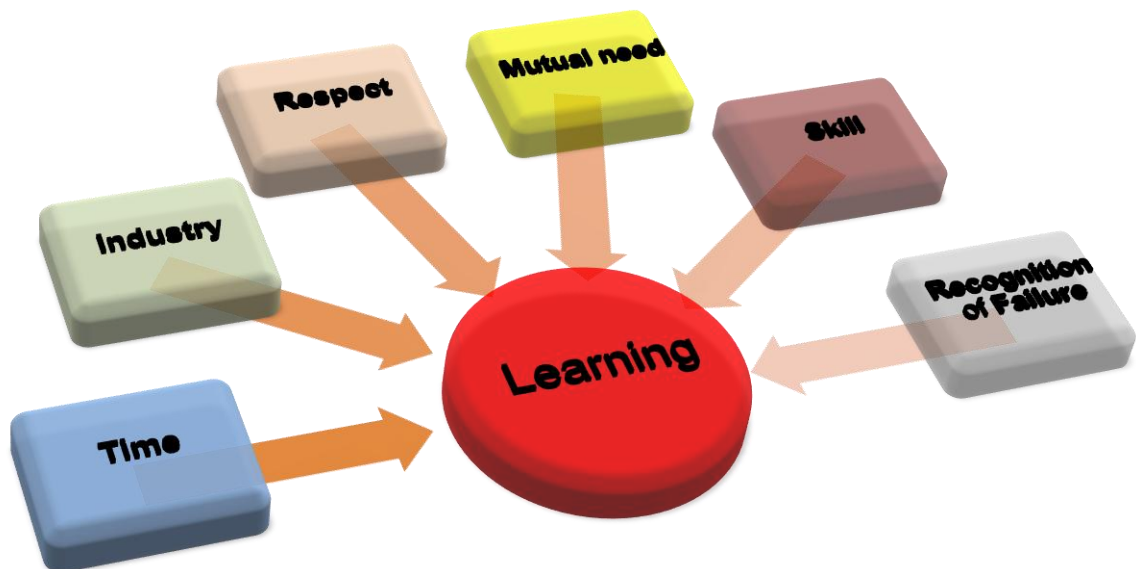
New Proposition D: The time required to learn from failure will be different for each failure that occurs.

6.7 Preconditions to Learning from Failure relevant to Business Rescue

6.7.1 Introduction to the model

The purpose of this model is to enable learning from failure relevant to business rescue. The model has as its aim to identify preconditions that would enable better learning from failure during the business rescue process.

6.7.2 Preconditions to learning model



The extent to which the 6 elements are present in the business rescue process will determine the extent to which learning from failure will occur.

Time : Refers to the time available to learn from the business rescue practitioner, as stated by one Manager: “If I had more time I would have been able to learn more but there just isn’t enough time”.

Industry: Experience relevant to the industry enables the business rescue practitioner to position himself in such a manner that gives the manager the confidence that he has the skill to affect turnaround and to pass on knowledge.

Respect: The extent to which both parties respects each other’s skills determines the extent to which learning is affected.

Mutual Need: Refers to the manner in which the learner believe he has something to learn and the practitioner’s willingness to share this knowledge.

Skill: Refers to both the practitioner and the manager's ability - technical and interpersonal, to provide and receive information.

Recognition of failure: If the learner does not see that a failure occurred for which they were responsible they will not see the need to learn. See Theme 1 and 2 relevant to internal and external causes of failure.

6.7.3 Management application

The model can be applied in all instances where the business rescue process is implemented as it will enable learning from failure and as a result will reduce the number of insolvencies.

6.8 Conclusion

This chapter provided information relevant not only to why learning from failure can take place but also to what elements can be incorporated into the business rescue process to ensure that learning from failure can become a reality

CHAPTER 7: CONCLUSION

7.1 Introduction

The purpose of this chapter is to summarise and contextualise the findings of the research, the purpose of which was to determine the extent to which learning from failure took place in the context of business rescue.

7.2 Results and Findings

The objective of this research was to determine if learning from failure took place, what impacted the learning at each stage of the business rescue process as well as if this learning was applied in future ventures.

For the purpose of the research the process of business rescue was defined as the failure event from which learning was to be researched. In order to create context the process of business failure required elaboration and for this purpose Pretorius' (2008b) turnaround situation and unique precondition matrix model was adopted to show the business failure decision cycle. The reason for doing this was to provide the background to the decisions that the manager would have needed to make relevant to the organisations. The point of relevance being that these decisions required previous learning and as such was relevant to learning from previous failure.

In order to define which exact instances of learning were of importance to the research as well as where the process of business decline these instances took place two figures were designed to provide clarity, they are figure 2: incidences of learning from business rescue as applied in this study and figure 3: business decline sequence of events.

Sixteen themes were identified out of interviews with participants from eight different industries. The themes provided the following insight:

- The board of directors provide substantially less insight and direction into business failure situations than what is required.
- The location of the cause of the failure determines the extent to which changes are made to the organisations

- Causes external to the organisation are blamed for business failure when, in fact, lack of general management skill also plays a significant part in failure.
- Managers and business rescue practitioners are in disagreement with the extent to which learning from failure prior to business rescue takes place. While the research indicates that there is merit in both points of view, research relative to the impact of prior learning from failure on the realisation of the requirement for external help required, has to be developed.
- Learning from failure during the business rescue process is higher than during other phases of business rescue provided the business rescue practitioner is seen as knowledgeable.
- Learning from failure after business rescue does occur, however given that the majority of these business rescue instances are only now in the process of completion, it is difficult to gauge the extent to which this learning will result in the avoidance of future failures. However, given the clarity with which failure and new learning can be linked by the participant it is more than likely that the learning will remain.

7.3 Contribution to Theory

If learning from failure can be enhanced thereby decreasing the on average 1,693 companies and 1,854 Closed Corporations that go into liquidation(Stats SA, 2010) South Africa can significantly reduce its current unemployment rate and increase its rate of growth .

The process of learning from failure can be enhanced if the model as designed as a result of this research is implemented as a first check to determine to extent to which preconditions to enable learning, exists.

If all aspects of the model i.e. recognition of failure, time, industry knowledge, respect, mutual need and knowledge are present in the engagement then learning from failure in the context of business rescue can be enhanced.

In addition to the model the research also provided four propositions that if researched, will add to the body of knowledge relevant to learning from failure in the context of business rescue. These propositions are:

New Proposition A: The greater the extent of prior learning from failure the quicker the incumbent will realise external help is required.

New proposition B: The greater the level of skill the business rescue practitioner has relevant to the industry that the manager is in will determine the extent and the speed at which learning from failure takes place.

New Proposition C: The extent to which learning relevant to the root cause of the problems is experienced is directly proportional to the extent to which the root cause of the failure is identified.

New Proposition D: The time required to learn from failure will be different for each failure that occurs

7.4 Limitations of the Study

Due to the sample size relevant to the inclusion of only companies that had financing with one financial institution the research was limited in terms of its reach across financial institution.

Limited insight could be gained from learning post the completion of business rescue due to the newness of the process and as such, disallowed learning from failure insight that was applied significantly after the fact of business rescue.

7.5 Suggestions for Further Research

As a result of the bias that business rescue practitioners have against managers relevant to their general level of business acumen, conducting research where both practitioner and manager has the same qualification will provide valuable insight into learning as it will automatically satisfy 3 of the 6 preconditions identified to enable learning.

Research relevant to how the root cause of failure identification can be enabled prior to learning will enhance the effectiveness of learning from failure.

Research into the customisation needed relevant to each failure situations will enable for greater partnership between practitioner and manager as the approach to business turnaround will be tailored to each unique situation thus realising greater learning.

Figure 5.1 indicates that in most cases the number of years' industry experience a manager has far exceeds the number management years. Research should be conducted with managers that have more management experience so as to ascertain if the learning from failure phenomenon is affected.

7.6 Managerial Implications

The implications for the South African economy are that the more we can learn from failure, the less failures will occur. In order to realise this learning the process of business rescue is ideally suited as it provides for a failure event from which learning can be extracted. The application of the preconditions to learning model prior to engaging with the organisation will enable the business rescue practitioner to assess the extent to which preconditions in a turnaround situations are met, thus increasing the possibility of learning from failure. The application of the precondition model can be conducted in the same way as is currently the practice with the selecting of suitable turnaround cases.

7.7 Conclusion

Learning from failure seems as logical as not making the same mistake twice, however as both of these constructs are multifaceted it requires more research to ensure what is logical becomes practically executable.

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