

THE CHOICE AGAINST FORMAL BUSINESS RESCUE

Dr Ingrid le Roux

Dept. of Business Management
University of Pretoria
E-mail: ingrid.leroux@up.ac.za

Prof. Marius Pretorius

Dept. of Business Management
University of Pretoria
E-mail: marius.pretorius@up.ac.za

In May 2011, Chapter 6 of the Companies Act (No. 71 of 2008) came into effect. This introduced a formal rescue procedure vaguely comparable to Chapter 11 in the USA and administration in the UK. Currently, BRPs in South Africa are licensed conditionally for a specific rescue project on application by the distressed company.

However, small business owners often do not opt for a business rescue although they know about the business rescue process. The study investigates why this is the case as well as what dilemmas the small businesses are facing when attempting an informal turnaround. The study attempts to better understand the reasons and dilemmas faced by small business owners when faced with a turnaround process. Our research and experience in the field suggest that the most frequent underlying causes of the problems faced by companies in turnaround situations are relatively straightforward – as are the solutions. Often entrepreneurs and managers come from diverse sets of educational and experiential backgrounds. As intelligent and knowledgeable as they are, many lack the needed practical tools and techniques of business – especially tools for risk analysis.

Therefore the purpose of the descriptive study was to better understand the dilemmas faced by small businesses who are attempting informal turnaround. The researcher interviewed two purposefully chosen small business owners whose businesses suffered through financial distress and the business owners conducted an informal turnaround. The information gathered was analysed and used to write the case studies. The researcher purposively chose business owners who were aware of the business rescue legislation and knew how it affected them. The research objective was to: Understand the dilemmas faced by small and medium businesses when attempting an informal turnaround

The findings suggest that four issues influencing decision making namely: (1) voluntary resignations and skills loss; (2) Loyalty to staff and employee well-being (3) family considerations and (4) enhanced financial distress. These allowed us to we arrived at a new conceptual framework for the dilemmas faced by small business owners in an informal turnaround situation.