

APPLYING AFFORDANCE THEORY TO REASONABLE PROSPECT DETERMINATION FOR VENTURES OPERATING IN THE ZONE OF INSOLVENCY

Marius Pretorius

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

Wesley Rosslyn-Smith

Department of Business Management
University of Pretoria
E-mail: Wesley.rosslyn-smith@up.ac.za

Ingrid le Roux

Department of Business Management
University of Pretoria
E-mail: Ingrid.leroux@up.ac.za

Current determination of reasonable prospect (RP) for businesses operating in the zone of insolvency (ZoI) is open to management, financial and legal criticism and scrutiny. Within Chapter 6 there is limited guidelines and no directives of what constitutes a RP leading to incoherent adjudication with no standard or benchmark methodology for its determination. Part of the problem is that turnaround situations vary at the individual level. No two turnaround situations are the same despite some generic similarities that may exist for causality and resource munificence. Affordance theory offers an alternative view to address this shortcoming in the rescue industry that is but five years old at the time of writing. Applying affordance theory in a framework may give direction to address the reasonable prospect determination issue.

The purpose of this study is to propose a framework based on proposed constructs that a business may be afforded by the ZoI environment. The ZoI is depicted by four turnaround situations (TAS) of turnarounds to distinguish between reasonable prospect for reorganisation to solvency or better return than in liquidation (BRiL) in comparison to liquidation. The framework should enhance our understanding of rescue decision making in practice and serve as a judgement guideline. We investigate several questions: Firstly, What is affordance theory and its possible application for RP determination? Secondly, can the affordances be used to distinguish between different turnaround situations found in the ZoI? Thirdly what relational factors should be considered when judging affordances for meaningful application of the framework? Finally we compare the differences between affordances of going concerns versus those from the TASs. Thus, a TAS as descriptor of the ZoI affords a measurement of RP that can guide decision making.

All literature on affordance theory and the zone of insolvency was investigated and is described. Thereafter theories, methods and tools for feasibility, viability, prospect, due diligence and recent case judgements were explored. Literature on turnaround situations was then added to inform the generic knowledge on performance within turnarounds. Thereafter, a framework is proposed. Four TASs based on an improved model (Pretorius, 2008) were used to describe the ZoI. These include “performing well, underperformance, strategic distress and crisis. The design of the framework is a critical antecedent to the eventual determination of RP. The affordance theory provides underlying measures to be used in the determination. It is anticipated that the framework proposed will be useful for practice. The framework’s trustworthiness (validity) will be explored by future research involving participants and that it can be replicated.

The study paves the way for addressing the reasonable prospect vacuum found in business rescue. By applying affordance theory in a framework, three critical aspects are addressed namely: Some structure

is given to the ambiguity of the ZoI which remains a consistent problem. Secondly, RP determination guidelines are proposed for broader application. Finally, applying the framework proposes discriminatory value for going concern versus distressed ventures (operating in the ZoI) to determine rescue choices.