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PMR's Editorial philosophy:
"It is only by standing on the
shoulders of giants that I
have been able to see
further."
Sir Isaac Newton,
1642-1727

Company Turnaround

Turnaround and the timeline of financial distress (part I)

Jan van der Walt, CEO Corporate Renewal Partners

Turnaround practitioners know that as a distressed company's situation deteriorates, players and legal considerations start affecting the parameters of a turnaround.

For instance, concerned creditors start flexing their considerable muscles. More engagement radically change when crossing the border from an informal turnaround in a formal insolvency process. With regard to the latter, planned new legislation opens new horizons for turnaround practitioners and has major implications for the management of troubled companies.

A troubled company not eventually turned around follows a timeline through four management-led correction, informal creditor workout, business rescue and liquidation.

The first two stages are informal processes occurring outside the legal framework of the Companies Act and Insolvency Act, and planned new business rescue legislation. The last two stages are formal insolvency processes, court-driven and, therefore, relatively slow and expensive.

As the timeline progresses, directors and management increasingly lose power, and the chances of a successful turnaround decline.

Direct costs refer to management consulting, accounting and legal costs. Indirect costs include additional management time and loss of employees, customers and suppliers.

The success rate refers to company survival, job retention and claimholder recovery.

Management-led correction of emerging problems, having the lowest costs and the highest success rate, is the ideal approach to turnaround.

However, and provided the company is still solvent, acute and worsening problems may require the involvement of creditors, particularly banks, to make continued support conditional to their requirements being met.

Accordingly, the terms of the workout agreement starts dictating the turnaround and the success rate. Workouts are largely successful, but costs increase.

Workout failure or insolvency cause formal insolvency procedures to set in. They are slow and the success rate progressively declines.

If the company is still viable, planned new business rescue legislation is expected to provide protection in the form of concursus creditorum, moratorium and cram-down of directors, thereby setting the scene for improvement on the dismal failure history of present insolvency mechanisms, particularly of judicial management. However, control of the company is transferred to directors and management to a business administrator.

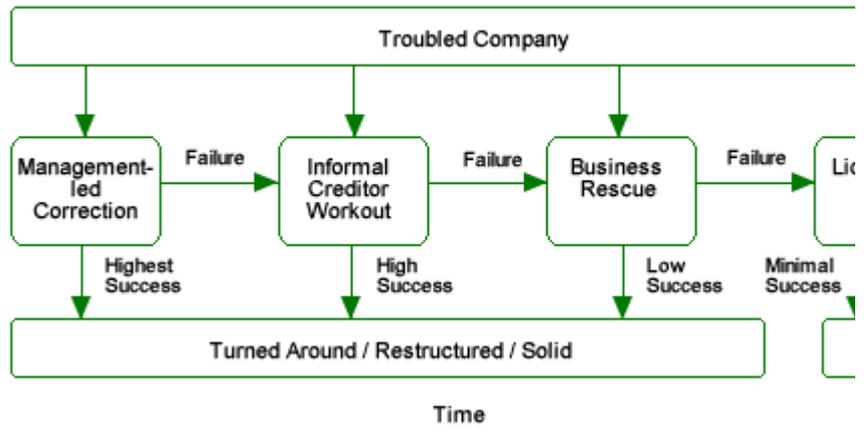
Lastly, if insolvent and not viable, the business is liquidated or sold in liquidation.

Promulgation of the planned new business rescue legislation will mark the most significant development in SA's turnaround industry history. As a result, turnaround practitioners will, as business administrators, be able to operate within a turnaround-friendly formal process for the management of troubled companies.

Turnaround during the individual timeline stages will be addressed in more depth in the next article.

follow.

Timeline of Financial Distress



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