

Opinion Article

CHALLENGES IN THE BUSINESS RESCUE INDUSTRY IN UGANDA

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Business Rescue is a philosophy, the philosophy asserts that “continuous existence of the business first.”

The interest in this opinion article is to convey someone a few cheerful hours of suggestive thoughtfulness in the simplest, most intelligible form in the value of clearness and eventually to propose the model of entrepreneurial performance.

INTRODUCTION

With millions of Ugandans unemployed and underemployed, the linkage between entrepreneurship and business rescue is increasingly important. In order for enterprises to grow and thrive, government plays a great role in enabling entrepreneurship through encouraging the use of business development services (BDS) (Sebikari, 2014b; William & Thawatchi, 2008; Coleman & Kofi, 2008; Smallbone, Walter, Voytoch & Egorov, 2008). But the evidence is clear that this progress is accompanied by some problematic challenges.

We believe that there's a great deal we can do to improve prospects for one and all by understanding the underlying determinants of the main aggregate trends in the economy with respect to the total output of goods and services (GDP), inflation, and international transactions (Snowdon & Vane, 2005); this is fundamental to initiatives whose objectives are to encourage the creation of economically viable enterprises aligned to the Global Entrepreneurship Monitor. There has been a considerable effort to support small businesses owners and entrepreneurs through training in entrepreneurship development (Kelley, Bosma & Amoros, 2011; Sebikari, 2014b; Kusemererwa & Jaaza, 2010).

Entrepreneurship

Entrepreneurship is the courses of action of creating worth by bringing together a unique package of resources to make for the most part of an opportunity (Casson, 2003; Kruzic & Pavic, 2010; Harris, 2010; Hisrich, Michael & Shepherd, 2005; McKenzie, Ugbeh &

41 Smothers, 2007). As well, entrepreneurship involves the emergence and growth of new
42 efficiently viable enterprises /entrepreneurial enterprises (Sebikari, 2014a). This is supported
43 by President Kagame's quote "*Entrepreneurship is the most sure way of development.*" The
44 theory of entrepreneurship therefore highlights the technique of the upcoming.
45 Entrepreneurship ought to not be a job substitute (Folta, Delmar & Wennberg, 2010;
46 McCann & Folta, 2012).

47 Uganda's high level of unemployment is a structural problem, monetary policy is ill-suited to
48 solve structural problems like real productivity and income distribution hence structuralist
49 approach is stressed out; Empirical evidence in Uganda increasingly confirms that the
50 previous direct relationship between aggregate spending and the money supply has
51 changed; economic growth slowed by the decline in GDP by 0.4 percentage in financial year
52 2013/2014 due to lower private investment outturns (MFPED, 2015); as a consequence
53 private sector consumption reduced. Mwabutwa (2014) suggests that advanced econometric
54 models (DSGE) habitually use the assumption of household consumption behavior in
55 modeling the special effects of fiscal and monetary policies on economic activities.

56 As in several other countries, the national tactic for the development and promotion of small
57 business identifies small business revolution/development and the empowerment of
58 entrepreneurs as engines for economic development (Minniti, 2008; Audretsch & Keibach,
59 2003; Global Entrepreneurship Monitor, 2010; Zoltan, 2007). Furthermore, Small business is
60 an end result of entrepreneurship; Therefore, Edmiston (2007) and Sebikari (2015)
61 acknowledge that the development of the small business sector is critical to economic
62 development in view of the fact that small businesses have a proliferate effect on the
63 economy.

64 *Micro, Small and Medium Enterprises*

65 In Uganda, the official definition of Micro, Small and Medium Enterprises (MSMEs) is offered
66 by Uganda Investment Authority (UIA) (2008); Uganda Bureau of Statistics (UBOS): Small
67 enterprise as one employing a minimum of 5 people, a maximum of 50 people and an
68 annual turnover of a maximum of 360 shillings while Medium enterprise employs between 50
69 and 100 people and annual turnover of more than 360 million. (Nshaho, 2011; Leopoulos,
70 2006; Sebikari, 2014b) observes that there is no single or common definition for SMEs in
71 both developed and developing countries; however, take in features and attributes that echo
72 how they are organized and managed.

73 In Uganda, entrepreneurial support is provided through government and private institutions.
74 Organizations like National Planning Authority (NPA); Enterprise Uganda; UIA; Economic
75 Policy Research Centre (EPRC); the Ministry in charge of trade, industry and Cooperatives;

the department in charge of investment and private sector development in the Ministry of Finance, Planning and Economic Development (MFPED) (Sebikari, 2014b).

For Uganda's small and medium enterprise sector have been full of excitements, challenges, disappointments and transformations. Findings by doing business Uganda report (2012), the obstacles facing small enterprises in Uganda include deficiency of entrepreneurial education or sensitizing young people in a way that could encourage them to enter business and acquire a culture of entrepreneurship; need of a dynamic business environment.

It is therefore no surprise that there are divergent views on the success or failure of small enterprise policies, and framework of small enterprise support (UIA, 2013). This is supported by UBOS (2011) and Sebikari 2014b) research that many of these businesses don't live more than a year. At hand is always a need for valuable support mechanisms for all stages of the entrepreneurial process; towering levels of uncertainty surrounding entrepreneurship stipulate the need for multiple and regular support (MFPED, 2011).

Small and medium enterprises are the spine of the Ugandan prosperity in view of the fact that they contribute to poverty curtail, job establishment and prop up entrepreneurship (UBOS, 2010; Turyahebwa, Sunday, Byamukama, Aluonzi, Yahaya & Novembrieta, 2013; Sebikari, 2015). Small and medium enterprises (SMEs) are characterized mostly by scarce resources, more flexible in consequence quick to react to customer demand, and promote entrepreneurial spirit (Sebikari, 2014b).

Business Failure

Enterprises today must operate in an entrepreneurial manner in order to create a competitive setting. Conversely, most of Uganda's SMEs fail since they work under monetary distress (UIA, 2008); they are credited to be deficient in entrepreneurial knowledge and business training, insufficient financing, poor pricing, overextension of credit, lack of contingency planning, misunderstanding market niche, lack of frankness, genuineness and honest; lack of entrepreneurial mindset, entrepreneurial spirit and entrepreneurial skills (Sebikari, 2015).

Further, According to Uganda Bureau of Statistics (2011) findings show the survival rate of businesses at 46%; what's more, the Word Bank Group's report "ease of doing business 2015" ranks Uganda at 150 out of 189 economies; according to Enterprise Uganda (2015) sixty percent of the starts-up fail in the first year of their existence thus the failure rate of businesses in Uganda is high.

Entrepreneurship literature has acknowledged that enterprises fail most often because they lack access to cremation, low productivity and profitability, lack of market competitiveness, and anti-entrepreneurial culture (Edmiston, 2007; Clover & Darroch, 2005). Beyond what has been said no single cause for the failure of an enterprise but an amalgamation of factors

111 (Nuwagaba & Nzewi, 2013; Baryamureeba, Habinka & Sol, 2009), this calls for advising
112 troubled enterprises. The answer is Business Rescue.

113 BUSINESS RESCUE THEORY

114 The notion of business rescue remains rather debatable given that many changes are
115 unpredictable. According to the company's act (2012) Uganda has no clear definition of
116 business rescue. Kagame Sebikari is associated with a special theory of business rescue
117 called "*the levelheaded theory*" that reflect more systematically about what determines the
118 justification of a rescue. This is, with the aim of emphasizing what cause what and why; as
119 an introduction to the theory, we briefly discuss the basic principles of business rescue. This
120 is, of course, subjective and difficult to measure objectively. Nevertheless, Business rescue
121 involves procedures to facilitate enterprises which are monetarily distressed or on the
122 brink of failure to change around/restructure and become profitable (Vriesendorp &
123 Gramatikov, 2010; Winer, Levenstein & Barnett, 2008; Sebikari, 2015).

124 Monetary distress is the set off, the gauge and the consequence of an enterprise in need
125 of salvage; when the enterprise foresees possible monetary distress may apply for rescue,
126 also pretentious parties may approach the court for rescue (Sebikari, 2015). It has been
127 argued as the opportunity to liquidation (Bracewell & Giuliani, 2010; Bradstreet, 2011). An
128 enterprise may enter business rescue voluntarily or court array (Australian Government,
129 2005). An enterprise is monetarily distressed if: unable to pay all its debts for example
130 experiencing negative cash flow or likely to become in receivership; drop in market share;
131 and change in management may impinge on sales. Good example is Uganda Telecom who
132 attributes their troubles to inability to maintain sound liquidity (the East African, 2015). In
133 addition, distress is experienced when the enterprise leadership failures to find the causes
134 for the decline in competitive advantage and sales demand declines (Sebikari, 2015). Once
135 this happens, Jarzabkowski, Balogun & Seidi (2007) reports that Business Rescue
136 Practitioner (BRP) is appointed to smooth the progress of the continued existence of the
137 enterprise; this is done by the company directors or commercial court. The practitioner
138 strength of character has full management control of the enterprise in substitution of existing
139 management; furthermore, the practitioner will probe the affairs of the enterprise and then
140 put forward a rescue arrangement; the business rescue progression culminates in the
141 development and implementation of a plan to rescue the enterprise by shake-up the
142 business and other responsibilities (Republic of South Africa, 2008).

143 Business rescue arrangement helps to converse aspects of the progression, act as an
144 enabler of intelligibility, outlines the spin strategy of the enterprise, compose a binding
145 contractual agreement among affected parties and also place of duty instigation funding.

146 Adding point further, an enterprise is protected against legal & regulatory proceedings when
147 under business rescue (McCormack, 2008). When the custody is imposed on the enterprise
148 then administration has to corporate with BRP thus giving the opportunity to evaluate the
149 circumstances (Republic of South Africa, 2008).

150 The business rescue is most recent and young-looking line of work in Uganda. The question
151 that moves up is: *Is there a way to differentiate one firm from another on performance? Are*
152 *there a set of characteristics that uniquely define a successful and high performing*
153 *practitioner?*

154 In order for business rescue to come to pass, there must be “levelheaded justification” to
155 rescue the enterprise. The question that arises is: what can make up such Levelheaded
156 Justification? Is there an enterprise? How under the weather is the enterprise? Is the
157 enterprise value saving? (Sebikari, 2015); Levelheaded justifications endow with supporting
158 confirmation to the business owner or court that the enterprise will be able to continue to
159 exist by streamlining the interaction or possessions as illustrated in figure 1:

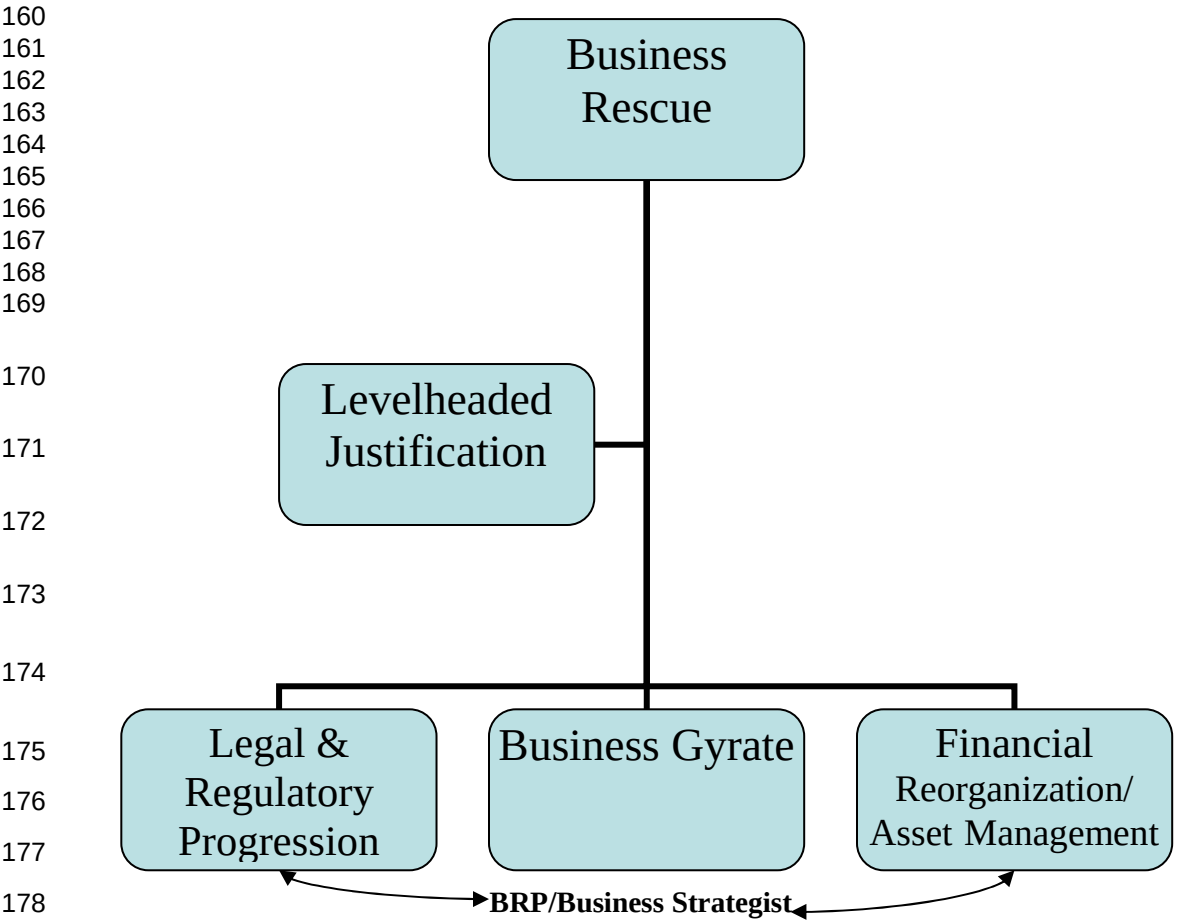


Figure 1: General Principles of Business Rescue

180 Sebikari (2015) suggests that business rescue brings about basic principles of legal &
181 regulatory progression, business gyrate and financial reorganization/asset management.
182 According to the companies' act 2012, Levelheaded Justification not defined; however, it
183 means justifications based on logical foundation. Further, it is from such justifications that
184 rescue will accomplish the foremost unit of business rescue. The most important being of
185 business rescue is to smooth the progress of the continued existence of the enterprise
186 and in the event that the prime creature is not viable, then to better-quality return for
187 directors. Various scholars suggest that the drive for business rescue is circumventing
188 misuse and abuse of enterprise funds; strengthen employees' job security (Kunkel,
189 Peterson & Mitchell, 2009; Sebikari, 2015).

190 *Principles of Business Rescue*

191 During the legal & regulatory progression, the enterprise's affairs of operation are
192 investigated; this enables to establish the procedure, processes and structure (Republic of
193 South Africa, 2008); Business gyrate entails an enterprise recovering from decline in recital.
194 Recital decline may come from issues of lack of competent management or environment in
195 which the enterprise is operating, for example the business owner loses interest in the
196 business, change in customers, suppliers and competitors. The American Turnaround
197 Management Association suggests that turnaround is the *reversal* in a firms decline in
198 performance. For that reason, it is possible to put businesses back to performance by
199 addressing signs of failure for example cost cutting, changing markets, adding significant
200 value to customers, establishing balance between the output goals & the performance driven
201 elements, and business shake-up. Therefore, it is the business owner's responsibility to
202 meet demands of customers and suppliers (Tangirala, 2015; Brei, Gamacorta & von Peter,
203 2013).

204 Beyond what has been said, turning the business around will greatly depend on the failure
205 levels thus one or more strategies may be applied to resolve the predicament; such as
206 strategic analysis, management analysis and the numbers (Midanek, 2002). Even so,
207 Gomathi (2014) demonstrates that stages of turnaround as: analysis of the situation,
208 creation of a plan, implementation of the plan, stablisation of the business and return to
209 growth of the business. Uganda Revenue Authority has been one of the success stories, the
210 revenue collections projected to reach shs.10988.5 billion in FY 2015/16 (MFPED, 2015).

211 Adding further point, financial reorganization/asset management will ensure continuous
212 assessment of cash flow, asset reorganization and reduce unnecessary expenses. As
213 reported by the East African (2015) Uganda Telecom rescue plan will involve aggressive
214 cost reduction, improve cash flow and optimisation of business processes.

Gitma, Lawrence & Madura (2001) demonstrates that expressing accounting numbers in relative sense to make financial statements much easier to understand; as a result, financial ratios strength of character is used to determine the vigor of the company.

Issues facing the management of working capital; for instance, financial ratios take account of profitability ratios, market ratios, liquidity ratios, efficiency ratios, and leverage/gearing/solvency ratios (Gitma *et al.* 2001; Orobia, 2014) as illustrated in table 1 below.

Table 1: Shows selected Financial Ratios, Formula and Interpretation

Ratios	Formula	Interpretation
Profitability ratios		
Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}} \times 100$	Shillings earned during the year on each shilling of sales before interest and taxes
Net profit margin	$\frac{\text{Net profit after tax}}{\text{Sales}} \times 100$	Shillings earned during the year on each shilling of sales
Return on equity	$\frac{\text{Net profit after tax}}{\text{Shareholders' equity}} \times 100$	Shillings earned during the year on each shilling invested
Return on assets	$\frac{\text{Net profit after tax}}{\text{Total assets}} \times 100$	Income generated by each shilling of assets
Liquidity ratios		
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	Number of times current assets could cover current liabilities
Acid test ratio (quick test)	$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$	
Efficiency ratios		
Accounts receivable turnover	$\frac{\text{Sales}}{\text{Average accounts receivable}}$	Number of sales/collection cycles completed during the year
Average collection period	$\frac{\text{Average accounts receivable}}{\text{Average daily sales}} \times 365$	Average number of days that elapse between sale and cash collection
Inventory turnover	$\frac{\text{Cost of sales}}{\text{Average inventory}}$	Number of purchase/sales cycles completed during the year
Number of days' sales in inventory	$\frac{\text{Average inventory}}{\text{Average daily cost of sales}} \times 365$	Average number of days of sales that can be made using only the supply of inventory on hand
Fixed asset turnover	$\frac{\text{Sales}}{\text{Average fixed assets}}$	Value of sales during the year generated by each shilling of fixed assets
Leverage ratios		
Debt ratio	$\frac{\text{Total liabilities}}{\text{Total assets}}$	Percentage of funds needed to purchase assets that were obtained through borrowing
Debt-to-equity ratio	$\frac{\text{Total liabilities}}{\text{Shareholders' equity}}$	Value of borrowing for each shilling invested

Adapted from Orobia, 2014

Efficiency ratios give you an idea about speed with which various accounts are transformed into sales or cash; profitability ratios set aside to evaluate firm's earnings with reference to a given level of sales or the owner's venture (Gitma *et al.* 2001). The ratios compared should be calculated using financial statements dated at the same point in time during the year, using audited financial statements, and financial information being compared should be developed in same way reminiscent of depreciation methods given that results can be distorted by inflation; upward pressure on prices means higher inflation, and inflation has harmful effects on business decision making.

In Uganda, the consumer price index (CPI) is most commonly used measure of the inflation rate; The Uganda Bureau of statistics' report "inflation 2015" increased to 5.4% in the month of July; that's why higher prices reduce the real value of the nominal supply leading to additional rise in interest rates and crowding out.

Crowding out occurs as soon as expansionary fiscal policy causes interest rates to ascend, thereby reducing private spending; According to Gomes & Paz ((2010) and Mwabutwa (2014) consumption is more associated with predictable income. This will have a greater effect on smaller enterprises.

Most of the small business owners in Uganda don't understand asset management/cash flow, for example they lack skills to keep accurate books of account since they cannot afford the examination of full time book keepers or accountants (Uganda National House Survey, 2010); Without a record of their business operations, small businesses operate in ignorance of their economic positions which makes it hard to plan and make them prone to financial shortages for example the enterprise's working investment capital is not met (Sebikari, 2014b).

In view of that to achieve revival, proper management structure or alternative leadership is needed to get involved in decision building of the business (Besant, 2013; Elson, Helms & Moncus, 2002). This has been highlighted in other countries as well like United Kingdom, USA, Canada, South Africa and Australia (Moore & Lubben, 2009; Burdette, 2004).

Moving the argument along, Business rescue and business gyrate is about information collection, scrutiny, assessment judgment, choice, decision, execution and gyrate scorecard. These necessities the BRP to demonstrated high level skills, competencies and capabilities, to the performance of the enterprise; such may include: excellent communication skills, problem solving skills, continuous innovative thinking, financial skills, analytical skills, an eye for details, entrepreneurial thinking, interpersonal skills, ability to create a new business culture and ability to implement, ability to influence key business directors (Abuel-Ealeh, 2009).

260 There is a gap between Uganda's insolvency and business rescue industry; only 12
261 Bankruptcy cases were filed in the financial year 2013/14 (MFPED, 2015). There are still
262 many unanswered questions with regard to the conceptual brass tacks. Uganda lacks a
263 formal and modern business rehabilitation scaffold, on hand research also appear
264 problematic.

265 Through the years, analysts follow a line of investigation or divide principles into several
266 categories to identify and assess industry best practices and to evaluate outcomes
267 (Henning, 2011; Corbin & Strauss, 1990). Therefore, aim is to provide direction and
268 guidelines for expertise, skills and competencies required. Each categorization option has
269 strengths and weaknesses in terms of bearing and the availability of reliable statistics.

270 In Uganda, the business rescue industry is complex, unstructured, uncertain and no
271 regulatory body. The business rescue industry possesses an integer of processes,
272 resources and course that are unique; this industry is motivated by the desire to bring
273 monetary distressed enterprises back to normality and give them remedy (New Vision,
274 2015).

275 Key philosophies to the success of the industry are the individuals (practitioners) that provide
276 the adeptness, attain the tools and wherewithal, and have the skills of organizational
277 rekindling; for that reason, Business rescue practitioners (BRP's) are troupe driving decision
278 making (Sebikari, 2015). After being appointed, a practitioner must investigate the
279 enterprise's dealings, business material goods and monetary situation to establish
280 "levelheaded justification" to rescue the enterprise.

281 From this time onwards, business rescue implies sophisticated monetary and management
282 know-how, understanding of legal & regulatory, and human relations skills (Baba &
283 HakemZadeh, 2012). As a result, skills, education, experience and knowledge define the
284 distinctiveness of BRP's. Competencies are connected with experience, learning and
285 practice that boost the level of recital (Baird & Lorence, 2012; Abuel-Ealeh, 2009).

286 The business rescue industry has shown that knowledge in the areas of legal & regulatory,
287 finance, business good judgment, and together with working experience are too
288 characteristics of successful practitioner's (Midanek, 2002). BRP's have high specialized
289 skills, knowledge underpinning and regulatory practice levels: skills like entrepreneurial,
290 negotiation and business leadership; problem solving; level of formal education that
291 enhances continuous & critical innovative thinking, and know-how to make informed
292 decisions; that's why innovation is *the appliance of creation into cost-effective tap*.

293 BUSINESS RESCUE CHALLENGES

294 Challenges in the business rescue industry in Uganda: The lack of perceptive of the concept
295 is partly due to lack of an adequate explanation of business rescue; understanding business

296 rescue presents a mammoth theoretical challenge that still essentially remains to be met, at
297 present there is no understandable given set of nuts and bolts for practitioners; inability to
298 access new technology; inability of the justice system to enforce commercial contracts;
299 limited access to finance since the banking sector has been mortgaged; fragmented
300 information; and there are no accepted gears, systems or processes to foretell the success
301 of a business rescue practitioner.

302 At present, the obtainable writing on business rescue is unsymmetrical. To provide a
303 foundation and common language from which to examine the rescue, there is need for
304 research to develop a thoughtful of processes during the special stages of business rescue
305 (Shook, Priem & McGee, 2003).

306 Business rescue is highly complex. Hence, How to implement business rescue:

307  Identify snag;

308  Determine the derivation causes; and

309  Develop the elucidation.

310 It's imperative that before problems can be fixed, they must be acknowledged. Globally, this
311 has been supported by numerous authors have argued that to know the problem, you have
312 to see the problem (Day, 2010). As well, it is critical to define the problem of interest and
313 congregate relevant data (Hillier, Lieberman, Schmedders & Stephens, 2000).

314 The *ceteris paribus*, Proper business rescue initiatives ought to be full of two components:
315 an entrepreneurship component and an enterprise facilitation component consequently give
316 confidence to businesses to notice the big picture and create an impact.

317 The feat of business rescue is never guaranteed: to achieve a successful business rescue,
318 enterprise decline must be acted upon; Decline does not shoot from a buzz cause; Problems
319 must be analysed, gyrate plan developed and implemented (Baron & Ensley, 2006).

320 The distinctive nature of the business will determine the strategies to be used by means of
321 altering business environments and modify the way enterprises vitally perform commerce.
322 Differentiating between business failure and decline gives bearing to East Africa
323 entrepreneurs on the subject of strategies to ensure firm recovery. Thus Ugandan educators
324 need better ways or guidelines to teach business rescue skills; legal & regulatory framework
325 put in place to quantify competencies and capabilities.

326

327 CONCLUSION

328 To synthesizing the theory of business rescue is to introduce the theory of entrepreneurship,
329 and to use the theory as a pattern in which power of the individual to make judgmental

330 decisions about coordination of scarce resource. Also theory of entrepreneurship highlights
331 the subjectivity of risk perceptions (Shackle, 1979).
332 The Ugandan government has no option but to give its full attention to passing the
333 entrepreneurial policy hence generating sustainable and entrepreneurial enterprises in
334 sequence with major macro-economic objectives of price stability (lower inflation); economic
335 growth; stability in the balance of payments; and high levels of employment.
336 Arguments from this paper suggests that outlining appropriate entrepreneurial policies will
337 increase the supply of entrepreneurs, increase business start up rates, and ensure growth of
338 firms. Stephens & Partridge (2011) agrees that more entrepreneurs mean more growth.
339 Therefore business rescue is of the essence to the growth of firms.
340

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COMPETING INTERESTS

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