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Challenges in the Business Rescue Industry in Uganda

Kagame Vincent Sebikari[1*]

[1]Mwamis Business Rescue, P.O.Box 30552 Kampala, Uganda.

Author's contribution

The sole author designed, analyzed and interpreted and prepared the manuscript.

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ABSTRACT

High level notion of business rescue remains rather debatable given that many changes are unpredictable. 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 business rescue $BR = a + b(PHILA)[(cLRP \times dBG \times eAM)]$.

This would enable policy makers to design appropriate entrepreneurial policies and provide incentives that could promote better business investment.

Keywords: Uganda; micro, small & medium enterprises; entrepreneurship; business failure; business rescue; business rescue theory; the levelheaded theory; principles of business rescue and challenges.

1. INTRODUCTION

With millions of Ugandans unemployed and underemployed [1,2], 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) [3-5]. But the evidence is clear that this progress

**Corresponding author: E-mail: kagamevincent@yahoo.com;*

is accompanied by some problematic challenges [6].

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 [7]; 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 [8,9].

2. 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 [10-14]. As well, entrepreneurship involves the emergence and growth of new efficiently viable enterprises /entrepreneurial enterprises [15]. This is supported by President Kagame's quote "*Entrepreneurship is the most sure way of development*." The theory of entrepreneurship therefore highlights the technique of the upcoming. Entrepreneurship ought to not be a job substitute [16,17].

Uganda's high level of unemployment is a structural problem [2]. Monetary policy is ill-suited to solve structural problems like real productivity and income distribution hence structuralist approach is stressed out.

Empirical evidence in Uganda increasingly confirms that the previous direct relationship between aggregate spending and the money supply has changed [18]; economic growth slowed by the decline in GDP by 0.4 percentage in financial year 2013/2014 due to lower private investment outturns [2]; as a consequence private sector consumption reduced.

Therefore, [19] suggests that advanced econometric models (DSGE) habitually use the assumption of household consumption behavior in modeling the special effects of fiscal and monetary policies on economic activities.

As in several other countries, the national tactic for the development and promotion of small business identifies small business revolution/ development and the empowerment of entrepreneurs as engines for economic development [20-22].

Furthermore, Small business is an end result of entrepreneurship [23]; Therefore, [24] acknowledges that the development of the small business sector is critical to economic development, in view of the fact that small businesses have a proliferate effect on the economy [25].

3. MICRO, SMALL AND MEDIUM ENTERPRISES

In Uganda, the official definition of Micro, Small and Medium Enterprises (MSMEs) is offered by [26] and [27]: Micro enterprises are those with an annual turnover of less than 5million shillings irrespective of the number of employees, while small enterprises are those employing a minimum of 5 people, a maximum of 10 people and an annual turnover of a maximum of 10m shillings. Medium enterprises employ between 10 and 50 people but with an annual turnover of less than 360 million while the large enterprises are those with an annual turnover of more than 360m and employing over 50 persons.

[27,28] observes that there is no single or common definition for SMEs in both developed and developing countries; however, take in features and attributes that echo how they are organized and managed.

SMEs are characterized mostly by scarce resources, more flexible in consequence quickly to react to customer demand, and promote entrepreneurial spirit [1]. SMEs are the spine of the Ugandan prosperity in view of the fact that they contribute to poverty curtail, job establishment, and prop up entrepreneurship [29,30].

In Uganda, entrepreneurial support is provided through government and private institutions. Organizations like National Planning Authority (NPA); Enterprise Uganda; UIA; Economic 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) [1].

For Uganda's small and medium enterprise sector have been full of excitements, challenges, disappointments and transformations. Findings by [25] and [29] doing business report shows that 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 [31]. This is supported by [32] and [1] 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; and towering levels of uncertainty surrounding entrepreneurship stipulate the need for multiple and regular support [33,34].

4. 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 [26]. This is credited to deficiency 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 [9,24].

Further, According to [32] findings show the survival rate of businesses at 46%; what's more, [35] report "ease of doing business 2015" ranks Uganda at 150 out of 189 economies; according to [36] sixty percent of the starts-up fail in the first year of their existence thus the failure rate of businesses in Uganda is high. This confirms a growing trend of monetary distress among Ugandan enterprises.

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 [37]. Beyond what has been said, no single cause for the failure of an enterprise but an amalgamation of factors [38,39], this calls for advising troubled enterprises. The answer is Business Rescue.

5. BUSINESS RESCUE THEORY

According to [40] Uganda has no clear definition of business rescue. The notion of business rescue remains rather debatable given that many changes are unpredictable. Kagame Sebikari is associated with a special theory of business rescue called "*the levelheaded theory*" that reflect more systematically about what determines the justification of a rescue. This is, with the aim of emphasizing what cause what and why; as an introduction to the theory, we briefly discuss the basic principles of business rescue. This is, of course, subjective and difficult to measure objectively. Nevertheless, Business rescue involves procedures to facilitate enterprises which are monetarily distressed or on the brink of failure, so they can change and become profitable [25,41,42].

Monetary distress is the set off, the gauge and the consequence of an enterprise in need of salvage; when the enterprise foresees possible monetary distress may apply for rescue, also pretentious parties may approach the court for rescue [25]. It has been argued as the opportunity to liquidation [43,44].

An enterprise is monetarily distressed if: unable to pay its entire sum unpaid for example experiencing negative cash flow or likely to become in receivership; drop in market share; and change in management may impinge on sales [23]. An enterprise may enter business rescue voluntarily or court array [45]. Good example is Uganda Telecom which attributes their troubles to inability to maintain sound liquidity [46].

In addition, distress is experienced when the enterprise leadership failures to find the causes for the decline in competitive advantage and sales demand declines [25] and [47]. Once this happens, [48] reports that Business Rescue Practitioner (BRP) is appointed to smooth the progress of the continued existence of the enterprise. This is done by the company directors or the commercial court.

According to [49] the practitioner strength of character is full management control of the enterprise in substitution of existing management. Furthermore, the practitioner will probe the affairs of the enterprise and then put forward a rescue arrangement; the business rescue progression culminates in the development and implementation of a plan to rescue the enterprise by shake-up the business and other responsibilities [25].

Business rescue arrangement helps to converse aspects of the progression, act as an enabler of intelligibility, outlines the spin strategy of the enterprise, compose a binding contractual agreement among affected parties and also place of duty instigation funding; Adding point further, an enterprise is protected against legal & regulatory proceedings when under business rescue; When the custody is imposed on the enterprise then administration has to corporate with BRP thus giving the opportunity to evaluate the circumstances [49].

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

The most important being of business rescue is to smooth the progress of the continuous existence of the enterprise and in the event that the prime creature is not viable, then to better-quality return for directors and all parties affected [42]. Various scholars suggest that the drive for business rescue is circumventing misuse and abuse of enterprise funds; strengthen employees' job security [25,46].

In order for business rescue to come to pass, there must be "levelheaded justification" to rescue the enterprise. The question that arises is: what can make up such Levelheaded Justification? Is there an enterprise? How under the weather is the enterprise? Is the enterprise value saving? [25].

According to [40] Levelheaded Justification not defined. However, it means justifications based on logical foundation. Levelheaded justifications endow with supporting confirmation to the business owner or the commercial court that the enterprise will be able to continue to exist by streamlining the interaction or possessions as illustrated in Fig. 1.

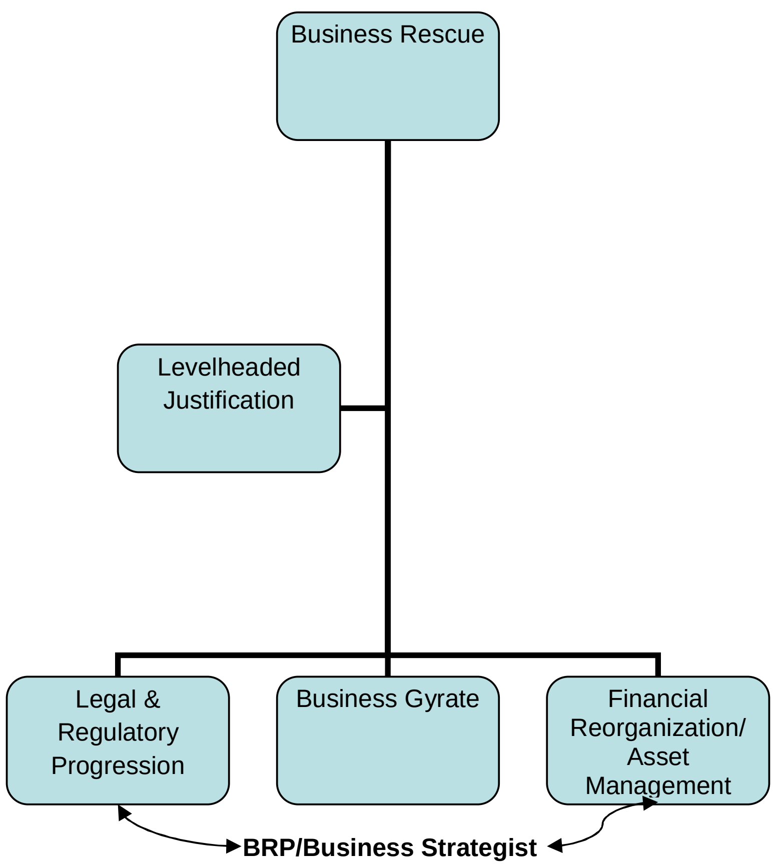

Fig. 1. General principles of business rescue

Further, it is from such justifications that rescue will accomplish the foremost unit of business rescue. Ceteris paribus, this can be expressed as: (BR) is a linear function of need for firm continued existence (PHILA) X (LRP) X (BG) X (AM). Mathematically,

$$BR = a + b(PHILA)\left[(cLRP \times dBG \times eAM)\right]$$

Subjected to

$$LRP + (BG + AM),\ LRP(BG * AM) = (LRP * BG)AM$$

Where a, b, c, d, e are constants; BR=Business Rescue; LRP=Legal & Regulatory Progression; BG=Business Gyrate; AM=Asset Management.

From this time onwards, business rescue brings about basic principles of legal & regulatory progression, business gyrate and financial reorganization/ asset management.

6. PRINCIPLES OF BUSINESS RESCUE

During the legal & regulatory progression, the enterprise's affairs of operation are investigated; this enables to establish the procedure, processes and structure [41,44].

Business gyrate entails an enterprise recovering from decline in recital. Recital decline may come from issues of lack of competent management or environment in which the enterprise is operating, for example the business owner loses interest in the business, change in customers, suppliers and competitors. The American Turnaround Management Association suggests that turnaround is the *reversal* in a firms decline in performance.

For that reason, it is possible to put businesses back to performance by addressing signs of failure for example cost cutting, changing markets, adding significant valve to customers, establishing balance between the output goals & the performance driven elements, and business shake-up [50,51]. Therefore, it is the business owner's responsibility to meet demands of customers and suppliers [52,53].

Beyond what has been said, turning the business around will greatly depend on the failure levels thus one or more strategies may be applied to resolve the predicament; such as strategic analysis, management analysis and the numbers [54]. Even so, [55] demonstrates that stages of turnaround as: analysis of the situation, creation of a plan, implementation of the plan, stablisation of the business and return to growth of the business. Uganda Revenue Authority has been one of the success stories, the revenue collections projected to reach shs.10988.5 billion in FY 2015/16 [2]. Adding further point, financial reorganization/ asset management will ensure continuous assessment of cash flow, asset reorganization and reduce unnecessary expenses [25]. As reported by [46] Uganda Telecom rescue plan will involve aggressive cost reduction, issues facing the management of working capital, improve cash flow and optimisation of business processes.

Hence, [56] 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. For instance, financial ratios take account of profitability ratios, market ratios, liquidity rations, efficiency rations, and leverage/ gearing/ solvency ratios [57] as illustrated in Table 1.

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 reverence to a given level of sales or the owner's venture [56].

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; [18] "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 [19] and [58] 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 [29]; without a record of their business operations, small enterprises 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 [1].

In view of that to achieve revival, proper management structure or alternative leadership is needed to get involved in decision building of the business [59,60]. This has been highlighted in other countries as well like United Kingdom, USA, Canada, South Africa and Australia [61,62].

Table 1. Shows selected financial ratios, formula and interpretation

Ratios	Formula	Interpretation
Profitability		
Gross profit margin	$\frac{\text{Gross profit}}{\text{Sales}} \times 100$	Earned Shillings 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	$\frac{\text{Net profit after tax}}{\text{Shareholders' equity}} \times 100$	Earned shillings during the year on each invested shilling
Return on assets	$\frac{\text{Net profit after tax}}{\text{Total assets}} \times 100$	Income generated by each shilling of assets
Liquidity		
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	The number of times current assets can cover current liabilities
Acid test ratio/ quick test	$\frac{\text{Current assets - inventory}}{\text{Current liabilities}}$	The firm's ability to pay its current liabilities
Efficiency		
Accounts receivable turnover	$\frac{\text{Sales}}{\text{Average accounts receivable}}$	The number of sales cycles completed during the year
Average collection period	$\frac{\text{Accounts receivable}}{\text{Average daily sales}} \times 365$	Average of number of days that go by between cash collection and sales
Inventory turnover	$\frac{\text{Cost of sales}}{\text{Average inventory}}$	The number of sales/ purchase cycles completed during the year
Number of days' sales in inventory	$\frac{\text{Average inventory}}{\text{Average daily cost of sales}} \times 365$	The average number of days of sales that can be made using only the supply of inventory on hand
Fixed asset turnover	$\frac{\text{Sales}}{\text{Average fixed assets}}$	The value of sales during the year generated by each shilling of fixed assets
Leverage		
Debt ratio	$\frac{\text{Total liabilities}}{\text{Total assets}}$	The percentage of funds needed to purchase assets that were obtained through borrowing
Debt to equity ratio	$\frac{\text{Total liabilities}}{\text{Shareholders' equity}}$	The value of borrowing for each shilling invested

Adapted from [57]

Moving the argument along, Business rescue and business gyrate is about information collection, scrutiny, assessment judgment, choice, decision, execution and gyrate scorecard [50]. These necessities the BRP to demonstrated high level skills, competencies and capabilities, to the performance of the enterprise [63]; 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 [64].

Competencies are connected with experience, learning and practice that boost the level of recital [65] and [66]. From this time onwards, business rescue implies sophisticated monetary and management know-how, understanding of legal & regulatory, and human relations skills [67]. The business rescue industry has shown that knowledge in the areas of legal & regulatory, finance, business good judgment, and together with working experience are too characteristics of successful practitioner's [54].

There is a gap between Uganda's insolvency and business rescue industry; according to [2] only 12 bankruptcy cases were filed in the financial year 2013/14. There are still many unanswered questions with regard to the conceptual brass tacks. Uganda lacks a formal and modern business rehabilitation scaffold, on hand research also appear problematic.

Through the years, analysts follow a line of investigation or divide principles into several categories to identify and assess industry best practices and to evaluate outcomes [68,69]. Therefore, aim is to provide direction and guidelines for expertise, skills, and competencies required. Each categorization option has strengths and weaknesses in terms of bearing and the availability of reliable statistics [63,70].

In Uganda, the business rescue industry is complex, unstructured, uncertain and no regulatory body. The business rescue industry possesses an integer of processes, resources and course that are unique; this industry is motivated by the desire to bring monetary distressed enterprises back to normality and give them remedy [25].

According to [25] key philosophies to the success of the industry are the individuals (practitioners) that provide the adeptness, attain the tools and wherewithal, and have the skills of organizational rekindling; for that reason, Business rescue practitioners (BRP's) are troupe driving decision making. After being appointed, a practitioner must investigate the enterprise's dealings, business material goods and monetary situation to establish "levelheaded justification" to rescue the enterprise.

As a result, skills, education, experience and knowledge define the distinctiveness of BRP's. BRP's have high specialized skills, knowledge underpinning and regulatory practice levels: skills like entrepreneurial, negotiation and business leadership; problem solving; level of formal education that enhances continuous & critical innovative thinking, and know-how to make informed decisions; that's why innovation is *the appliance of creation into cost-effective tap*.

7. BUSINESS RESCUE CHALLENGES

Challenges in the business rescue industry in Uganda: The lack of perceptive of the concept is partly due to lack of an adequate explanation of business rescue; understanding business rescue presents a mammoth theoretical challenge that still essentially remains to be met, at present there is no understandable given set of nuts and bolts for practitioners; inability to access new technology; inability of the justice system to enforce commercial contracts; limited access to finance since the banking sector has been mortgaged; fragmented information; and there are no accepted gears, systems or processes to foretell the success of a business rescue practitioner. At present, the obtainable writing on business rescue is unsymmetrical.

To provide a foundation and common language from which to examine the rescue, there is need for research to develop a thoughtful of processes during the special stages of business rescue [71].

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

- Identify snag;
- Determine the derivation causes; and
- Develop the elucidation.

It's imperative that before problems can be fixed, they must be acknowledged. Globally, this has been supported by numerous authors have argued that to know the problem, you have to see the problem [72]. As well, it is critical to define the problem of interest and congregate relevant data [73].

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

The feat of business rescue is never guaranteed: to achieve a successful business rescue, enterprise decline must be acted upon; Decline does not shoot from a buzz cause; Problems must be analysed, gyrate plan developed and implemented [74]. The distinctive nature of the business will determine the strategies to be used by means of altering business environments and modify the way enterprises vitally perform commerce.

Differentiating between business failure and decline gives bearing to East Africa entrepreneurs on the subject of strategies to ensure firm recovery. Thus Ugandan educators need better ways or guidelines to teach business rescue skills; legal & regulatory framework put in place to quantify competencies and capabilities.

8. CONCLUSION

To synthesizing the theory of business rescue is to introduce the theory of entrepreneurship, and to use the theory as a pattern in which power of the individual to make judgmental decisions about coordination of scarce resource. Also theory of entrepreneurship highlights the subjectivity of risk perceptions [75].

The Ugandan government has no option but to give its full attention to amending the Companies act and passing the entrepreneurial policy hence generating sustainable and entrepreneurial enterprises in sequence with major macro-economic objectives of price stability (lower inflation); economic growth; stability in the balance of payments; and high levels of employment. Understanding these objectives leads to a more complete view of the entrepreneurial judgment.

Arguments from this paper suggests that outlining appropriate entrepreneurial policies will increase the supply of entrepreneurs, increase business start up rates, and ensure growth of firms. Finally, education programs should highlight the advantages of this approach. According to [76] more entrepreneurs mean more growth. Therefore business rescue is of the essence to the growth of firms.

COMPETING INTERESTS

Author has declared that no competing interests exist.

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