

[Home](#) > [Journal of Economics and Finance](#) > Article

The early stages of financial distress

| Published: June 1999

| Volume 23, pages 123–132, (1999) [Cite this article](#)[Save article](#) [View saved research](#) >**Journal of Economics and Finance**[Aims and scope](#) →[Submit manuscript](#) →**Richard B. Whitaker¹** **3815** Accesses **204** Citations [Explore all metrics](#) →

Abstract

More firms enter financial distress as a result of poor management than as a result of economic distress. Management actions are a significant determinant of recovery and improvement in the industry-adjusted market value for firms entering financial distress as a result of poor management, but not for firms entering as a result of economic distress. In the early stages of financial distress, median firm operating income measured on an unadjusted basis and after controlling for other factors which alter firm performance increases significantly. The results support Jensen's hypothesis that financial distress triggers corrective action which improves firm performance. (*JEL* G300)

Access this article

Log in via an institution →

Subscribe and save

✓ Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

View plans →

Buy Now

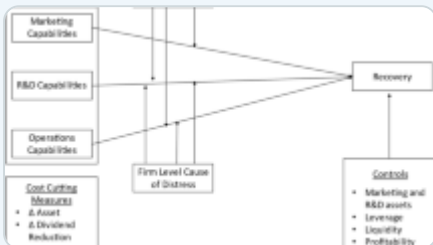
Buy article PDF 39,95 €

Price includes VAT (Poland)

Instant access to the full article PDF.

[Institutional subscriptions](#) →

Similar content being viewed by others



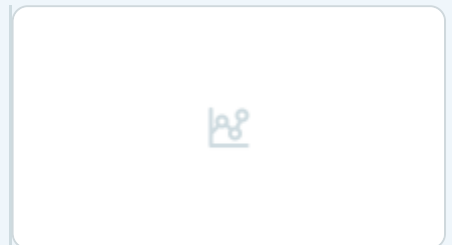
Marketing capability and the turnaround of financially distressed firms

Article | 31 October 2023



Financial Management Tools

Chapter | © 2021



A search for macroeconomic determinants of corporate financial distress

Article | 17 November 2021

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Corporate Finance](#)

[Financial Crises](#)

[Management](#)

[Performance Assessment](#)

[Performance Management](#)

[Prognosis](#)

References

Altman, Edward I. 1984. "A Further Empirical Investigation of the Bankruptcy Cost Question." *Journal of Finance* 39: 1067-1089.

[Article](#) [Google Scholar](#)

Asquith, Paul, Robert Gertner, and David Scharfstein. 1994. "Anatomy of Financial Distress: An Examination of Junk Bond Issuers." *Quarterly Journal of Economics* 109: 625-658.

[Article](#) [Google Scholar](#)

Brown, David T., Christopher M. James, and Robert M. Mooradian. 1992. "The Information Content of Distressed Restructurings Involving Public and Private Debt Claims." *Journal of Financial Economics* 33: 93-118.

[Article](#) [Google Scholar](#)

Clark, Truman A., and Mark I. Weinstein. 1983. "The Behavior of Common Stock of Bankrupt Firms." *Journal of Finance* 38: 489-504.

[Article](#) [Google Scholar](#)

Gilson, Stuart C., Kose John, and Larry H. P. Lang. 1990. "Troubled Debt Restructurings: An Empirical Study of Private Reorganization of Firms in Default." *Journal of Financial Economics* 27: 315-353.

[Article](#) [Google Scholar](#)

Harris, Milton, and Artur Raviv. 1990. "Capital Structure and Informational Role of Debt." *Journal of Finance* 45: 321-350.

[Article](#) [Google Scholar](#)

Jensen, Michael C. 1989. "The Eclipse of the Public Corporation." *Harvard Business Review* 5: 61-74.

[Google Scholar](#)

Jensen, Michael C., and William H. Meckling. 1976. "Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure." *Journal of Financial Economics* 3: 305-360.

[Article](#) [Google Scholar](#)

John, Kose, Larry H. D. Lang, and Jeffrey Netter. 1992. "The Voluntary Restructuring of Large Firms in Response to Performance Decline." *Journal of Finance* 47: 891-917.

[Article](#) [Google Scholar](#)

Ofek, Eli. 1993. "Capital Structure and Firm Response to Poor Performance." *Journal of Financial Economics* 34: 3-30.

[Article](#) [Google Scholar](#)

Opler, Tim C., and Sheridan Titman. "Financial Distress and Corporate Performance." *Journal of Finance* 49: 1015-1040.

Warner, Jerold B. 1977. "Bankruptcy Costs: Some Evidence." *Journal of Finance* 32: 337-347.

[Article](#) [Google Scholar](#)

Wruck, Karen H. 1990. "Financial Distress, Reorganization, and Organizational Efficiency." *Journal of Financial Economics* 27: 419-444.

[Article](#) [Google Scholar](#)

Author information

Authors and Affiliations

Department of Finance, Lumpkin College of Business, Eastern Illinois University, 61920, Charleston, Illinois

Richard B. Whitaker

Additional information

This paper is based on my dissertation at the University of Houston. I appreciate the helpful comments from Ronald F. Singer (chair), David W. Blackwell, Raul Susmel, and Julio Peixoto, and seminar participants at the Southern Finance Association meeting.

Rights and permissions

[Reprints and permissions](#)

About this article

Cite this article

Whitaker, R.B. The early stages of financial distress. *J Econ Finan* **23**, 123–132 (1999).

<https://doi.org/10.1007/BF02745946>

Issue date

June 1999

Keywords

[Cash Flow](#)

[Firm Performance](#)

[Financial Distress](#)

[Poor Management](#)

[Logit Regression](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research