The early stages of financial distress

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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)

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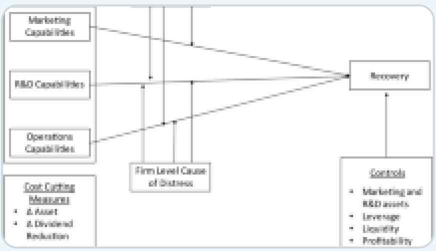

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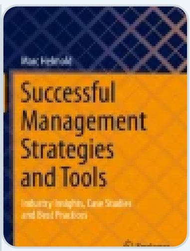

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Additional information

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