PREDICTING TURNAROUND SITUATIONS IN MALAYSIA: LOOKING FOR SIGNS BEFORE THE CRUNCH

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ABSTRACT

For decades, financial analyst have been trying to build an early warning device against financial failures. They seek the significant changes in the corporate reports, comparing one figure against another and come up with countless number of ratios. The two most important work in this field are by William H. Beaver, who identified 5 most important predictive ratios, and Edward I. Altman, who formulated a multivariate analysis method giving weights to certain ratios and summing them up to give credit scores to the firm for their failure potential. This study is to find out if the predictive powers of these tools work as well for Malaysian firms and if these tools can help managers and shareholders to steer their companies from danger before it is too late.

It was found that these tools function quite well whereby the results obtained are quite similar to Beaver's and Altman's. These tools are so reliable that in the United States of America, some of these predictive tools are improved upon and patented by management consultants firm. Using these improvised tools for specific industries, the firms provide management and shareholders with important information regarding the performance of their companies. It is recommended that these predictive tools should be utilized in Malaysia for evaluating performance and decision making.

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CHAPTER ONE - INTRODUCTION

Turnaround: an overview

Companies are a lot like humans. They are born, they grow, they get sick and eventually, they die. Of course, the sequence of events need not be in that order. Many companies have survived their period of sickness and continue to grow to be as profitable as they once were, if not better. However, quite a number did not make it through. Some fade away over the years while others go out in a blaze of bankruptcy.

Basically, a turnaround means taking certain measures to save a company from financial disaster. A turnaround situation is therefore the term used to describe a situation where a firm is facing financial disaster. For example,"XXX Sdn. Bhd. is in a turnaround situation" means that if action is not taken to turn the company around, it will most certainly perish.

Richard S. Sloma wrote in his book entitled "The Turnaround Manager's Handbook":

> " A common misconception is that all turnarounds consist of or deal with transforming an unprofitable firm into a profitable one. Not so! It just seems that way because too many managers allow the firm to deteriorate to that