



**CORPORATE FINANCIAL DISTRESS, MARKET REACTION AND
TURNAROUND STRATEGIES: A MALAYSIAN SCENARIO.**

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ABSTRACT

This study aims to contribute to the debate of financial distress by examining the market reaction to the announcement of Malaysian financially distressed companies (PN4 status). The main objective of this study is to examine the PN4 companies' share returns performance upon the announcement of Practice Note 4 status. A sample of PN4 companies from February 2001 to December 2002 was chosen for this study. The annual reports of the companies were analyzed in terms of financial performance and turnaround strategies for the period 1999 to 2003. The results of this study show that the financially distressed companies significantly experienced a poor performance when negative average Abnormal returns and Cumulative Abnormal returns are obtained in the short run and long run period upon the announcement date. There is also significant evidence that recovery and non-recovery firms adopt a similar set of turnaround strategies. In addition, more recovery firms adopt capital expenditure, equity issues, sales of fixed assets and sales of shares and investment which can be classified as forward looking, expansionary and external focused strategies compared to non-recovery firms. Non-recovery firms are more internally focused on operational and financial restructuring strategies to overcome the distress situation.

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