



Predicting Restructuring Outcomes of Financially Distressed Firms in Malaysia

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ABSTRACT

This study examined the effects of institutional factors, including; board size, blockholder ownership, and political connections, as some of the determinants (apart from various company-level financial variables) on the outcomes of financially distressed listed companies in Malaysia. A highly concentrated ownership structure is common in most developing countries, including Malaysia. Besides, Malaysia has a unique disclosure environment where all listed companies must release relevant and adequate information to the public to improve investors' protection and corporate transparency. Therefore, Practice Notes which are standards and measures for Malaysian Listed Companies, are designed to help listed companies that are financially distressed to restructure their debts within a stipulated time, giving them sufficient time to re-emerge in the exchange. The logistic regression analysis results on a sample of financially distressed Malaysian public listed companies suggested that; interest coverage ratio, stock returns, blockholder ownership, and political connections were significance at the 5% level. The institutional variables suggested that blockholder ownership and political connectedness had a positive and significant effect on the possibility of companies emerging from financially distressed conditions. The findings have provided important practical implications for managers and potential investors in their risk management decisions.

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INTRODUCTION

Notable published research on corporate and small business failures by Altman (1968), Agrawal (2015), and Abdullah et al. (2019), to name a few, spawned many studies on the topic of corporate and small business failures. However, Eberhart et al. (1999) focused on companies that emerged from bankruptcy and whose share prices were positive. Since then, empirical studies, such as; Wang and Deng (2006), Bhattacharjee and Han (2014) and He et al. (2019), have focused on resolving corporate financial distress. Several studies have suggested that a firm's financial distress outcome could be influenced by institutional factors (Kam et al., 2008) or political connections (He et al., 2019). A firm's value falls when the control rights of the largest shareholder exceed its cash-flow ownership, consistent with an entrenchment effect (Claessens et al., 2000). Political connectedness is one of the important institutional factors in developing countries, which could bring certain benefits to a firm. The benefits of political connectedness, among others, are; greater access to government financing, protection from market competition (Faccio, 2006), bailout funds, increased procurement of government contracts, and favourable regulatory treatment (Khwaja and Mian, 2005). There has also been evidence suggesting that politically connected firms have a lower cost of capital (Boubakri et al., 2012) because politically connected firms have greater chances of being rescued by governments during economic crises (Faccio et al., 2006). These studies have suggested that having government connections adds value to politically connected firms.

Moreover, post-bankruptcy studies in the existing literature have tended to be based on developed countries, such as the U.S. Developed and emerging countries have substantial institutional framework differences. La Porta et al. (1997) argued that emerging countries with poorer investor protections, measured by legal rules and law enforcement quality and character, had smaller and narrower capital markets. Accordingly, these factors influence companies' decisions when resolving their financial distress. Eberhart et al. (1999) showed large positive excess common stock returns for companies emerging from Chapter 11, as shown by the average abnormal returns ranging from 24.6 per cent to 138.8 per cent in the 200 days following emergence. Ahmad et al. (2008) investigated the share price performance of Malaysian companies emerging from financially distressed conditions. The results showed strong evidence of negative abnormal returns in the short- and long term. This outcome indicated that companies appeared to underperform in the market at the time of their emergence from the Practice Note 4 classification.

This paper's objective was to investigate the predictors of the outcomes of financially distressed companies. While the market may be able to differentiate between the outcomes of distress resolution, measures from financial statements might also be considered to provide a better understanding of the researched issue. Since emerged companies were once financially distressed, the same features may be shared between delisted and emerged companies in some circumstances. This situation, in turn, may cause the prediction of complicated distress resolutions. In general, financially distressed companies demonstrate; deteriorating earnings, book values of assets and equities. Nevertheless, it is important to know the characteristics of failed companies that will survive at the onset of financial distress. With a better grasp of the characteristics of emerged companies, the restructuring process could be shorter and, thus, reduce the underlying cost.

The present study has made two contributions to the existing literature. First, political connections have been linked to several companies in Malaysia. Therefore, empirical explanations concerning Malaysian companies may offer different views. Johnson and Mitton (2003) posited the important aspect of political connections in Malaysian companies. One of the aspects of this study was to make explicit consideration concerning the peculiarities of ownership structures in Malaysia. A highly concentrated ownership structure is common in most developing countries, including Malaysia. Compared with its Western counterparts, Malaysia's corporate ownership structure is highly concentrated, with only 1% of publicly listed companies in Malaysia being widely held (Claessens et al., 2000). This highly concentrated ownership feature is due to Asian Chinese culture, which accounts for most share ownership in Malaysia. Concentrated ownership creates different incentives and shareholder powers compared to companies with dispersed ownership. Besides, the existence of standards and measures, namely, Practice Notes, for Malaysian listed companies to protect investors' and markets' interests are unique. This situation creates differences compared with U.S. listed companies, depending on the markets' ability to regulate any restructuring.

Second, many empirical studies have attempted to comprehend the optimal approach to resolving corporate financial distress (Barniv et al., 2002; Kim and Kim, 1999; Kim et al., 2008). These studies focused on the outcomes of bankruptcy filings using various company-level financial variables. Therefore, this paper focused on the institutional structures of financially distressed companies in determining the outcomes of corporate financial distress. This paper included; board size, blockholder ownership, and political connections as factors that could have substantial implications in predicting the successful restructuring of financially distressed firms. Besides substantial differences in economic prosperity, specific institutional frameworks or environments are fundamentally different across countries, especially between developed and emerging countries. Previous studies have suggested that emerging markets, in general, have low creditors' rights protections and ineffective law enforcement (La Porta et al., 1998). Accordingly, these factors influence companies' decisions in resolving their financial distress. As put forward by Claessens et al. (2005), the different bankruptcy law structures among countries are due to institutional differences.

Additionally, the tendency for government interference in markets and companies has been high, thus, indicating a low quality of bureaucracy (Shleifer and Vishny, 1994). This issue was raised by Gomez and Jomo (1997). They described how the Malaysian government has intervened in corporate activities through; listing restrictions, direct equity stakes, control of banks, and government-sponsored investment vehicles. Furthermore, Johnson and Mitton (2003) posited the important aspect of political connections in Malaysian companies.

The remainder of this paper is structured as follows. Section 2 covers a review of relevant existing literature concerning insolvency. The design of this research work is explained in Section 3. While Section 4 presents and discusses the empirical results. Finally, this paper's conclusions can be found in Section 5.

LITERATURE REVIEW

Existing studies have failed to explain the effect of institutional factors on the successful restructuring of financially distressed firms. In this sense, empirical studies on the outcomes of financial distress are vital, especially in the case of Malaysia, which has a unique institutional setting when compared to other developed and developing countries. This section provides an overview of the institutional settings in Malaysia and a literature review covering current empirical studies.

Malaysia's Institutional Structure

A highly concentrated ownership structure is common in most developing countries, including Malaysia. Compared to firms in the United Kingdom, Japan, and the United States, the corporate ownership structure is highly concentrated in Malaysia, with only 1% of publicly listed companies in Malaysia being widely held (Claessens et al., 2000; La Porta et al., 1999). This situation creates different incentives and shareholder powers. The highly concentrated ownership feature is due to Asian Chinese culture, which accounts for many business owners in Malaysia. On average, the single largest shareholder holds a 31% shareholding in Malaysian companies, and the top 5 largest shareholders hold 62% of the shares. From the Malaysian perspective, diverse ethnic backgrounds could contribute to different turnaround strategies (Sim, 2009).

Since Malaysia's independence in 1957, cooperation between the government and the private sector has boosted economic development. Politically connected firms have been significantly more likely to be bailed out than similar non-connected firms. Further, among bailed-out firms, politically connected firms have exhibited significantly worse financial performance than their non-connected peers during and following bailouts. This evidence has suggested that, at least in some countries, political connections influence capital allocation through financial assistance when connected companies have confronted economic distress (Faccio et al., 2006).

Board Size

A well-organised board of directors can efficiently monitor a firm's management. This arrangement, in turn, could enhance a firm's performance or firm's value (Brennan, 2006). There has been mixed evidence on the relationship between board size and corporate failure. A smaller board size could improve firms' performance and eventually lower failure rates (Yermack, 1996; Eisenberg et al., 1998). Better decisions and coordination

could be achieved due to more effective communication flows (Jensen, 1993). Hillman et al. (2003) showed a nonlinear (U-shaped) relationship between company board size and financial distress in Brazil. They suggested that the optimal number of board members was six during periods of financial distress. Chaganti et al. (1985) found that large board sizes could reduce failure risk and had a lower tendency to fail. A larger board size has better access to external resources and could provide valuable needs during critical conditions (Hillman et al., 2000; Hillman and Dalziel, 2003).

Blockholder Ownership

The ongoing discussion concerning concentrated ownership structures and firms' performance has been encouraging in the existing literature. To increase a firm's value, large shareholders monitor the firm's management performance professionally. Therefore, ownership concentration could reduce agency problems and, thus, put pressure on a firm's management to deliver on their interest (Shleifer and Vishny, 1997). Even though firms' ownership structures in the United States are mainly dispersed, 67% of firms in the world are controlled by a single large shareholder (La Porta et al., 1999). Malaysia has a high concentration of ownership where, on average, the single largest shareholder owns a 31% shareholding (Haniffa and Hudaib, 2006). There has been mixed evidence on the effects of ownership concentration on firms' values. Examining 1301 publicly traded companies in East Asia, Claessens et al. (2002) suggested that ownership concentration (cash-flow relationship) increased firms' values, supporting the positive incentive effect of large shareholdings. In contrast, Demsetz and Lehn (1985) and Demsetz and Villalonga (2001) discovered no significant impact between ownership concentration and a firm's performance. Thomsen et al. (2006) found no significant association between blockholder ownership and prior or subsequent firms' values in either the U.S. or the U.K. Nonetheless, in Continental Europe, they found a negative relationship between blockholder ownership and firms' values or accounting returns in the next period. Further analysis revealed that this association was significant only for companies with high initial levels of blockholder ownership (> 10%).

Concerning insolvency studies, consistent empirical results have not been reached. Chiang et al. (2015) revealed that certain corporate governance characteristics had explanatory power for default probability, but the impact was not straightforward. In particular, the impact of internal and external governance structures on default risk was industry dependent. Accordingly, governance proposals that encourage higher ownership among directors and large block shareholdings in high-tech firms or reduce managerial ownership in conventional companies could counter corporate governance resulting in higher bankruptcy possibilities. Conversely, Hwang et al. (2014) suggested that the largest shareholder ratio held a negative sign and was significant in predicting delisting in Korea. The largest shareholder ratio can predict delisting up to three years before a firm's delisting. They suggested that stakeholders pay close attention to various qualitative factors not expressed in financials to predict delisting as early as possible and, thus, minimise social losses. Earlier studies by Parker et al. (2002, 2005) suggested that firms with larger levels of blockholding had a higher probability of surviving than firms with smaller blockholdings during periods of financial distress.

Political Connections

Politically connected companies benefit from knowing which financial assistance will be granted during difficult financial conditions. Therefore, these companies tend to gain the support and influence of the government during restructuring processes. For this reason, Malaysian politically connected companies carry more debt, as documented by the studies by Bliss and Gul (2012), Fraser et al. (2006), and Johnson and Mitton (2003). Gomez and Jomo (1997) described how the Malaysian government had intervened in corporate activities, such as direct shareholdings in public listed companies and banks. Furthermore, Johnson and Mitton (2003) posited the important aspect of political connections in Malaysian companies. The present study has gauged whether political connectedness may affect the ability to resolve financial distress conditions.

Control Variables

Specific financial variables have been used as control variables to examine the effect of institutional variables on financial distress outcomes. The control variables were; firm size, leverage, liquidity, total assets to turnover, earnings before interest and tax to interest expenses, and cumulative average abnormal returns (-1, +1). Larger companies are more likely to have different classes of assets that could be used as collateral to

secure additional funding during financial distress (Warner and White, 1983). In other words, larger companies have a greater capacity to survive during periods of poor performance than smaller companies. The economies of scale following bankruptcy costs for larger companies showed that bankruptcy costs were less significant when measured as a size ratio (Gruber and Warner, 1977; Campbell, 1996). In addition, Denis and Rodgers (2007) found that smaller firms had better operating performance among firms that had filed Chapter 11. Those firms operating in higher operating margin industries spent less time in Chapter 11. Firms were more likely to emerge as going concerns and achieve positive post-reorganisation profitability if they had significantly reduced assets and liabilities in Chapter 11. Higher pre-bankruptcy industry-adjusted operating margins and improved margins were associated with post-reorganisation profitability but did not impact reorganisation decisions.

Highly leverage companies were more likely to have difficulties securing the necessary funding to continue their operations. A high level of debt led to greater uncertainty. Therefore, it was difficult to secure additional borrowings if the company had little or no assets available for use as security. Furthermore, Hwang et al.'s (2014) study of Korean listed companies suggested that a company's debt ratio was significant in determining if it became a delisted company.

Routledge and Gadenne (2000) investigated whether companies under reorganisation could be distinguished from those liquidating under voluntary administration (VA). In addition, the performance of reorganised companies was examined to determine the variables that distinguished 'successful' from 'unsuccessful' reorganisations. The results of the analyses have implications for policymakers regarding the efficiency of the VA procedure, as it appears that the reorganisation decision is biased toward permitting inefficient firms to reorganise. On the other hand, Wang (2012) found that companies with significant liquid assets tended to be liquidated. The earnings prospects should also indicate whether a company could successfully undergo its reorganisation procedure (Casey et al., 1986; White, 1984). A successfully reorganised company is expected to operate profitably to overcome its insolvent condition. Evidence has shown that the market has insight between "value" and "less value" companies. For instance, Aharony et al. (1980) found that the market could indicate failure up to four years before companies filed for bankruptcy. Clark and Weinstein (1983) suggested that the market distinguished between worthless and valuable shares.

Beneish and Press (1995) showed that technical default was a timely warning of further distress insofar as debt service default's adverse stock price effects were mitigated if preceded by technical default. This study found that this partly arose because technical default increases the likelihood of further distress. The extent of the mitigation suggests reduced costs of future distress, likely because technical default triggers the early exercise of contractual rights that allow lenders to increase control over a firm. Chen and Schoderbek (1999) indicated that firms'; audit opinions, Chapter 11 filings, firms' trading volumes, and one-year stock returns before delisting were important factors in delisting decisions. Similarly, Lin et al. (2008) found that delisting risk increased when firms undertook repetitive restructurings, massive workforce reductions, and large-scale asset downsizing. Firms with high debt levels that failed to cut costs and/or narrow their focus on core competencies were also more likely to delist.

RESEARCH DESIGN

Sampling Procedure

This paper's sample comprised financially distressed public listed companies in Malaysia. These companies were traced through official announcements from the Bursa Malaysia website. Details on the announcement date of entering the Practice Notes and the reason(s) for entering the Practice Notes were taken. The outcomes of the restructuring (either delisted or regularised) were obtained by searching the company's announcements after the compulsory monthly announcements related to the Practice Notes. The final sample consisted of 232 companies between 2001 and 2014.¹

¹The sample started from the beginning of Practice Note 4 in February 2001, Practice Note 17, and Amended Practice Note 17 and Guidance Note 3 until 31 December 2014. The outcomes of the restructurings (whether the affected financially-distressed companies were delisted or regularised) were known on the effective emergence date when the company exited the Practice Notes. The reorganisation period may take a few months or several years depending on the size and complexity of the reorganisation case.

Each firm's financial information, including: size, leverage, liquidity, profitability, and share price, were collected from the Refinitiv Datastream database. Information on the ownership structures (blockholder ownership and board size) were manually collected from the sampled company's annual reports. Following normal practice, financial institutions, real estate, and insurance companies were excluded as they use different accounting standards. Thus, the failure to exclude these companies from the sample may have led to misleading results and misinterpretations. Moreover, companies with missing data during the period were also excluded. Concerning political connections, this study used politically connected firms in the previous studies by Gomez and Jomo (1997), Johnson and Mitton (2003), How et al. (2014), and Wong and Hooy (2018).

Method of Analysis

This study applied logistic regression by considering the following description of a financially distressed company's outcome type to determine the factors for the survival of financially distressed firms:

$$C_i = \begin{cases} 1 & \text{if company emerged} \\ 0 & \text{if company delisted} \end{cases} \quad (1)$$

The probability for the emerged company is expressed as follows:

$$P_i = E(Y = 1|x_i) = \frac{1}{1 + e^{-(\beta'x_i+u_i)}} \quad (2)$$

where $i = 1, \dots, N$, x_i is the vector of the independent variables for the i^{th} emerged and accordingly, the β is a vector of the coefficients obtained from the regression.

Model 1:

$$Emerged_{i,t+1} = \beta_0 + \beta_1 Size + \beta_2 Totaldebttotalasset + \beta_3 Totalassetturnover + \beta_4 Quickratio + \beta_5 EBITto interest expense + \beta_6 CAR(-1, +1) + \varepsilon_{i,t} \quad (3)$$

Model 2:

$$Emerged_{i,t+1} = \beta_0 + \beta_1 Politicalconnection + \beta_2 BlockholderOwnership + \beta_3 BoardSize + \varepsilon_{i,t} \quad (4)$$

Model 3:

$$Emerged_{i,t+1} = \beta_0 + \beta_1 Size + \beta_2 Totaldebttotalasset + \beta_3 Totalassetturnover + \beta_4 Quickratio + \beta_5 EBITto interest expense + \beta_6 CAR(-1, +1) + \beta_7 Politicalconnection + \beta_8 BlockholderOwnership + \beta_9 BoardSize + \varepsilon_{i,t} \quad (5)$$

Table 1 Description of the Variables

Variables	Description	Sources
Outcomes	1=Emerged, 0 = Delisted	Companies' announcement from the Bursa Malaysia website
Board size	Natural logarithm of the number of directors	Companies' annual reports
Blockholder ownership	Percentage of shares held by shareholders owning 5 per cent or more	Companies' annual reports
Political connections	1 = politically connected companies 0 = non-politically connected companies	Faccio (2006), Bliss et al. (2011), Wong and Hooy (2018)
Leverage	Total debt to total assets	Datastream
Quick ratio	Current Assets-inventories / current liabilities	Datastream
Total assets turnover	Sales to total assets	Datastream
Interest coverage ratio	Earnings before interest and tax to interest expense	Datastream
Stock returns	Cumulative average abnormal return (CAR) of days -1 to +1	Author's calculation
Firm size	Natural logarithm of total assets	Datastream

Table 2 Data distribution of the independent variables between emerged and delisted companies

Variables	Group	Mean	Median	Standard Deviation	Mean difference	t-statistics (p-value)	Mann-Whitney test z-statistics (p-value)
Firm size	Delisted	11.80	11.78	1.22	-0.30	-1.46 (0.15)	-1.51 (0.13)
	Emerged	12.10	12.03	1.54			
Leverage	Delisted	55.77	54.31	34.20	-0.85	(0.87)	-0.64 (0.52)
	Emerged	56.61	56.83	37.87			
Quick ratio	Delisted	0.47	0.35	0.43	-0.18	-1.36 (0.18)	-0.56 (0.57)
	Emerged	0.65	0.36	1.11			
Total assets turnover	Delisted	0.57	0.47	0.52	0.064	0.883 (0.38)	-0.99 (0.32)
	Emerged	0.51	0.40	0.48			
Interest coverage ratio	Delisted	-10.01	-4.47	16.18	-5.96	-2.97*** (0.00)	-3.01*** (0.00)
	Emerged	-4.05	-1.25	11.58			
Stock returns	Delisted	-0.29	-0.24	0.27	-0.10	-2.93*** (0.00)	-3.04*** (0.00)
	Emerged	-0.19	-0.12	0.22			
Board size	Delisted	1.81	1.79	0.27	-0.01	-0.38 (0.70)	-0.66 (0.51)
	Emerged	1.83	1.79	0.26			
Blockholder ownership	Delisted	0.32	0.30	0.18	-0.05	-1.98** (0.05)	-2.05** (0.04)
	Emerged	0.38	0.37	0.17			
Political connections	Delisted	0.13	0	0.33	-0.20	-3.24*** (0.00)	-3.31*** (0.00)
	Emerged	0.32	0	0.47			

Notes: Null hypothesis of the Mann-Whitney U-test is the median difference between emerged and delisted groups. *, **, *** denote significance at the 10, 5 and 1 per cent levels, respectively.

Table 3 Pearson correlation

	Firm size	Leverage	Quick ratio	Total assets turnover	Earnings before interest and tax to interest expense	CAR (-1,+1)	Board size	Blockholder ownership
Firm size	1							
Leverage	.044	1						
Quick ratio	.018	-.292***	1					
Total assets turnover	-.294***	-.072	.049	1				
Interest coverage ratio	.304***	.056	.085	-.092	1			
Stock returns	.022	.101	.046	-.044	.006	1		
Board size	.173**	-.028	.065	.038	.072	.015	1	
Blockholder ownership	-.008	-.079	.045	.045	-.008	-.148*	.028	1
Political connections	.317***	-.095	.174**	-.186***	.028	.138*	.044	-.005

Note: *, **, *** denote significance at the 10, 5 and 1 per cent levels, respectively.

EMPIRICAL RESULTS

The descriptive statistics are presented in Table 2. The data distribution suggests that emerged firms had; higher coverage on their loans, better stock returns, higher blockholder ownership, and were more politically connected, with a significant mean difference at the 5 per cent level. Similar results are shown for the Mann-Whitney test of median difference, suggesting that these four variables differentiated between emerged and delisted companies. Even though financially distressed companies had negative earnings, emerging companies could adjust negative earnings during restructuring. On average, the delisted companies' loss was 29% during the three days of the announcement period compared to the emerged companies losing 19% of stock returns. Emerged companies had higher blockholder ownership, with 38% owning 5% or more of a company shareholding. Of the emerged companies, 32% were politically connected. The pairwise correlation results (Table 3) suggested that the correlations were low, between 0.005 to 0.317 and did not exceed 0.80 to 0.90, thus, not showing any serious multicollinearity. Nevertheless, variance inflation factors (VIF) were obtained (Table 4) to confirm the multicollinearity issue.

Table 4 Variance Inflation Factors (VIF)

Variables	VIF
Firm size against other independent variables	1.394
Leverage against other independent variables	1.139
Quick ratio against other independent variables	1.096
Total assets turnover against other independent variables	1.164
Interest coverage ratio against other independent variables	1.155
Stock returns against other independent variables	1.041
Board size against other independent variables	1.029
Blockholder ownership against other independent variables	1.066
Political connections against other independent variables	1.148

Notes: The variance inflation factor (VIF) is computed using the following formula: $1/(1 - R^2)$. It estimates whether the magnitude of the changes in the variance of an estimated regression coefficient is "inflated" due to collinearity with other independent variables in the model.

The statistics of the logistic regression model fit are reported in Table 5. The Hosmer-Lemeshow test results showed that all three models were adequate and that the models fitted the data with p -values of 0.661, 0.720, and 0.589 for Model 1, Model 2 and Model 3, respectively. The insignificance of the Hosmer and Lemeshow test results indicated that the models passed the test and were better than the null model. Thus, the variables identified in the models could predict emerging firms among financially distressed firms. Regarding the accuracy rate, Model 3 provided the highest accuracy rate of 67.1%, compared to 64.3% (Model 1) and 65.2% (Model 2). To reaffirm the predictive ability of the models, the area under the ROC curve (AUROC) of Model 3 was 0.763 showing the higher ability of Model 3 compared to the other two models.

Table 5 Logistic Regression Model Fit Statistics

	Model 1	Model 2	Model 3
Hosmer-Lemeshow	5.876 (8 degree of freedom, p -value =0.661)	5.348 (8 degree of freedom, p -value =0.720)	6.519 (8 degree of freedom, p -value =0.589)
-2 Log likelihood	231.489	207.620	175.753
X ²	15.161(6)**	13.449(3)***	30.204(9)***
Cox-Snell's R ²	0.080	0.079	0.177
Nagelkerke's R ²	0.108	0.106	0.241
Area under ROC curve (AUROC)	0.674 (SE=0.040, z=16.376)	0.654 (SE=0.043, z=14.767)	0.736 (SE=0.040, z=17.198)
Accuracy ratio	0.348	0.308	0.472
Classification results	64.3%	65.2%	67.1%

Note: *, **, *** denote significance at the 10, 5 and 1 per cent levels, respectively. The number in parenthesis is the standard error. Accuracy ratio = 2*(AUC-0.5). SE refers to standard errors, and z refers to the z-statistic for the difference between AUC and the random model (AUC of 0.50). The Hanley and McNeil (1982) test statistic tested whether both models can predict failure better than a random model.

Table 6 Logistic Regression Estimation Results

Variables	B	S.E.	Wald	Sig.	Exp(B)
Model 1					
Firm size	.079	.133	.353	.553	1.082
Leverage	.001	.005	.026	.872	1.001
Quick ratio	.141	.314	.203	.652	1.152
Total assets turnover	-.114	.336	.115	.734	.892
Interest coverage ratio	.031	.014	4.699	.030**	1.031
Stock returns	1.498	.649	5.326	.021**	4.471
Constant	-.761	1.708	.199	.656	.467
Model 2					
Board size	0.174	0.629	0.076	0.783	1.190
Blockholder ownership	1.891	0.956	3.912	0.048**	6.628
Political connections	1.218	0.402	9.171	0.002***	3.380
Constant	-1.645	1.213	1.840	0.175	0.193
Model 3					
Firm size	.057	.162	.124	.725	1.059
Leverage	.004	.006	.438	.508	1.004
Quick ratio	-.038	.337	.013	.911	.963
Total assets turnover	.318	.378	.708	.400	1.374
Interest coverage ratio	.055	.023	5.558	.018**	1.057
Stock returns	1.797	.798	5.067	.024**	6.029
Board size	.427	.742	.330	.565	1.532
Blockholder ownership	2.745	1.073	6.546	.011***	15.572
Political connections	1.062	.470	5.112	.024**	2.893
Constant	-2.822	2.453	1.323	.250	.060

Note: *, **, *** denote significance at the 10, 5 and 1 per cent levels, respectively.

Table 6 presents the logistic regression estimation results of this study. The positive sign of the interest coverage ratio suggested a higher probability of survival during difficult times by assessing the ability of firms to service the interest on their loans. Stock returns, indicated by positive and significant CAR (-1, +1), suggested that the capital market could differentiate financially distressed firms based on the expected outcomes. It showed that the market differentiated between the subsequent re-emerged and delisted firms during financial distress announcements. At the time of financial distress announcements, the capital market differentiated firms based on the expected outcomes, showing that the market had insights into the expected outcomes of financial distress. (Ahmad et al., 2016; Balios et al., 2016). The institutional variables suggested that blockholder ownership and political connectedness positively affected the possibility of emerging from financially distressed conditions. High blockholders who remained in the event of financial distress could signal the possibility of emerging as a result of a successful restructuring process (Kim et al., 2016). Conflicts between the shareholders and managers of a company were less likely to be triggered due to fewer

information asymmetries, and, therefore, the likelihood of successful restructuring was high. The significance of a higher ownership concentration structure also supported the agency theory. It suggests that the controlling mechanism from ownership concentration could align and induce managers' objectives towards maximising shareholders' interests.

CONCLUSION

This study examined the factors determining the outcomes of financially distressed resolutions of listed companies in Malaysia. It differed from other studies concerning corporate failure. The present study looked at the aftermath of financial distress situations to determine the factors regarding firms that emerged from distress conditions. The estimation results indicated that; interest coverage ratio, stock returns, blockholder ownership, and political connections could predict emerging financially distressed companies. The findings of this study have provided important implications for; policymakers, firms, and potential investors in understanding financially distressed listed companies as part of their risk management decisions. For regulators, this could shorten the time taken to evaluate reorganisation plans proposed by affected firms and, thus, reduce costs related to the restructuring process. Creditors could utilise the models in negotiating the terms during the negotiation process of financially distressed firms. In this sense, a decision on the negotiation could be made constructively since the possible outcomes of the distressed firms could be predicted. In addition, these variables could help investors evaluate the outcomes of financially distressed companies and strategise their investment plans. There are several directions or opportunities in which research on corporate restructuring might evolve and could yield valuable knowledge. The present work could be repeated using a sample of small companies or small and medium enterprises (SMEs). The results would be important because failures in SMEs are more common than in large companies.

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