



A board's guide to financial distress:

Staying ahead and preserving options



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01 Staying ahead of financial distress

Financial distress is an increasing reality for companies in today's world of interconnected risks. Economic pressures are common triggers, and their impact is amplified during periods of uncertainty, such as the recent geopolitical conflict and pandemic crisis. These uncertainties cause disruptions through supply chains and capital markets.

Companies are especially vulnerable in today's climate, confronting tighter financing conditions, weaker external demand, and rising operating costs.

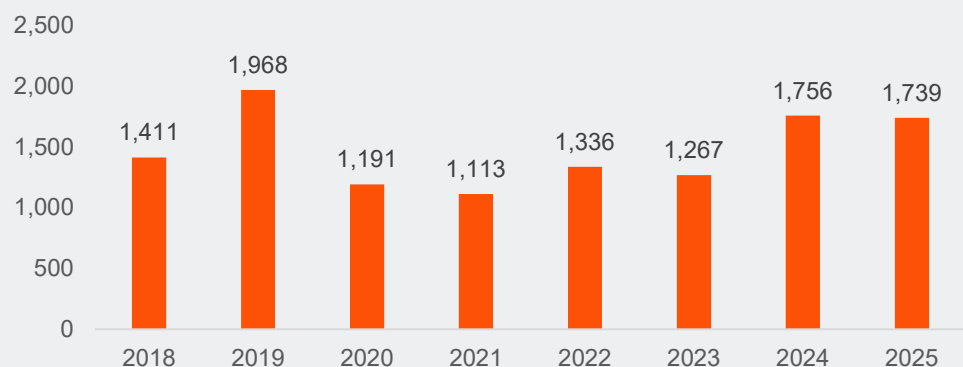
The rise in winding up cases as shown below reflects an uptick in underlying distress, shaped by the uncertainties in recent years following the pandemic. Access to working capital and refinancing have become more constrained, while slower growth in key export markets, including the US and China, and tariff-related tensions have weighed down on export-oriented sectors and their supply chains.

Subsidy rationalisation, sales and service tax ("SST") expansion, higher insurance premiums, and broader input price pressures are compressing margins, as competitive pressures continue to rise.

Often, companies are susceptible to financial distress, before the warning signs become obvious.

Winding up cases in Malaysia remain high in 2024 and 2025

Number of companies placed under compulsory winding up



Directors need to recognise that every company could at some point face financial distress or face the risk of insolvency. Together with management, they must be prepared to deal with rapidly changing circumstances that could cause such distress. One of the ways that companies may try to alleviate financial distress is through a financial or operational restructuring (see Chapter 5).

However, spotting the warning signs can be difficult for directors, particularly as they aren't managing the day-to-day operations at the company.

In the early stages, it's often hard to know if a certain challenge is a temporary setback or an indicator of deeper issues ahead. Unless there are obvious fires to put out, executives may be slow to recognise—or acknowledge—that the business is under mounting strain.

So, what can boards do if an individual company—or the entire industry—is just beginning to experience signs of distress?

Various factors can create a distressed situation. Accept the possibility that your company may need to have a conversation about restructuring.

While management handles the day-to-day, boards should be looking ahead for potential issues.



02 Knowing the early warning signs

Recognising potential signs of distress early helps management and the board preserve options. Think of it like your personal health. Early diagnosis typically gives doctors a broader array of potential treatments, but if you ignore symptoms until the condition becomes worse, your treatment options are often more limited and more drastic.

In the same vein, early identification of issues can help a company refocus its strategy, giving it a better chance at stabilising operations and preserving value.

Directors should take a disciplined and inquiring approach to the company's performance at each meeting. Information needs to be presented consistently to identify trends including asking questions to get clarity if this is not done effectively.

Particular attention should be given to cash flow and liquidity positions, and whether management's narrative aligns with external signals from the market and the industry. Where inconsistencies or warning signs appear, directors should press for more detail or explanation.

If not addressed early, what may seem like an isolated problem could really be the tipping point that forces you into insolvency.



Perhaps most importantly, directors need to be willing to accept that distress could be on the horizon, even when executives work to paint a rosy picture. The common warning signs shared in the table below need to be identified early to enhance the company's ability to negotiate from a position of strength.

Common warning signs of potential distress in a company

Area of concern	Signals	Description
Cash/ Liquidity	Liquidity pressure	Insufficient cash flow and availability of cash to meet obligations
	Free cash flow burn	Sustained negative free cash flow performance atop low available cash
Debt/ Leverage position	Debt maturity or refinancing challenges	Upcoming debt maturities with uncertain refinancing options
	Debt covenant pressure	The company is at risk of or has violated terms set by lenders (leverage, fixed charges, minimum liquidity, etc.)
	Distressed debt pricing	Debt trading below 80% of par (debt trading below 90% of par is generally considered stressed)
	Elevated leverage ratios relative to industry peers	Elevated debt-to-EBITDA or debt-to-equity ratios relative to industry peers
Going concern	Ratings downgrades	Recent or anticipated reduction in credit rating or rating outlook
	Going concern warning	Auditors raising doubts about ongoing viability which typically triggers default under debt agreements
	Significant litigation	Significant or sudden litigation (e.g., regulatory compliance claims, major contractual disputes)
	Delayed financials release	Delays in issuing financial statements or repeated restatements which raise concerns about internal controls, financial integrity, or potential covenant implications
Relationship with stakeholders	Loss of a major customer	Customer concentration risk materialises, prompting operational restructuring
	Vendor relationship strain	Suppliers tightening terms or demanding faster payments or collateral (e.g., letter of credit)
	Management turnover	Frequent or abrupt changes in leadership can signal internal instability
	Steep decline in stock price/market capitalisation	Public identification of weak points related to a company's financial position, strategic plan, or business model

03

Assessing the situation and developing a plan

Once the warning signs have been identified, the focus should be on ensuring the company maximises the available financial and operational options.

Restructuring plan with a detailed viability assessment

Directors should encourage management to do a comprehensive review including its recent financial performance, business plan and financial forecasts, management team capabilities, short- and medium-term liquidity needs, and the capacity to access capital markets. Once management has analysed the situation, it will be better positioned to assess viability, its options and recommend a turnaround plan.

Directors should review this viability assessment, available options, and plan with a critical eye including requesting analysis be prepared for best, worst, and most likely scenarios. Studies have shown that during prior financial crises, the worst-case scenarios provided by management teams often weren't nearly bad enough to prepare the company for a crisis.

At the same time, the board may want to create a special committee of directors who can focus additional time and attention on the issues. Boards (or the special committee) will want to consider engaging independent advisors. These advisors would report to the board but work closely with senior management which should focus on key financial and operational concerns.



04

Asking the right questions in a turnaround exercise

Liquidity and working capital

Insufficient cash monitoring and poor working capital management can introduce unnecessary risks to an otherwise stable business. Companies that end up in distress often point to an over-leveraged balance sheet and weak controls around the billings and collections process. This can lead to stretching payables to meet short-term liquidity requirements.

How boards can challenge management

1. What quick wins can we get in working capital improvement or other cash generation actions?
2. What would it take to execute a realistic cost reduction plan?
3. What does a working capital benchmarking exercise—that compares the company's performance against peers—tell us about potential areas for improvement?

Access to capital

Companies need to ensure their overall capital structure is appropriate for their current level of activity while minimising the risk of external disruption. Early engagement with creditors is necessary to strengthen the company's position and improve their resilience.

How boards can challenge management

1. Are we close to breaching our debt covenants? Who is monitoring the situation, and what are we doing about it?
2. Which of our financial covenants, debt repayment schedules, and other terms are open to negotiation? How can we negotiate new amendments and waivers to provide more stability?
3. Which lender should we approach now to restructure existing financing facilities proactively, before a crisis happens?

Operational efficiency and organisational structure

The loss of key leaders, ineffective management, and failed projects or investments can test a company's strength. Other common challenges are operational issues, from unfavourable contracts and ineffective supply chains to insufficient capital expenditure spending.

How boards can challenge management

1. Which business units are not core to corporate strategy and could be sold, wound down, or closed to release capital and resources for redeployment?
2. Which inactive or redundant businesses should we consider dissolving or selling to address questions from shareholders, activists, and regulators, and help reduce operating costs?

Stakeholder management

Early engagement with stakeholders is crucial to increase transparency and strengthen critical relationships before a period of distress.

How boards can challenge management

1. What are our biggest vulnerabilities?
2. How are we addressing any vulnerabilities so that we can ease potential shareholder concerns and possibly prevent activist campaigns?
3. How can we provide shareholders with clearer visibility into key strategic, budgeting, and investment decisions to reinforce confidence in our preparedness and direction?

Continuity and consistency in business operations

A restatement, investigation, or brand issue carries significant implications and demands focused attention. Ensure that resources are adequately allocated so that the day-to-day running of the business remains fully supported while these issues are being addressed.

How boards can challenge management

1. Is the company still viable and sustainable given the current market conditions and future prospects?
2. Have you identified a dedicated team that will deal with the crisis?
3. Have you maintained a core management team that will focus on the ongoing business?

There are many reasons why businesses fail. Act quickly on any signs of distress and develop a plan that assesses liquidity needs and strategic alternatives.



05 Working through a restructuring

If initial turnaround actions to enhance revenue, reduce costs and/or improve liquidity do not deliver the desired results, the board may need to consider additional alternatives.

Companies facing financial difficulties may first attempt to restructure and reorganise their affairs either in or out of court.

(A) Out-of-court restructuring

For many Malaysian corporates, an initial step is to pursue an informal workout with key creditors/lenders. This approach is most effective when there are only a few creditors/lenders involved, the underlying business remains viable, and relationships with stakeholders are constructive.

Common solutions include:

- negotiate to extend loan maturities
- reschedule repayments
- implement grace periods
- seek discount or waiver of late payment interest
- refinancing of the current debt
- increase credit limits/temporary bridge financing.

These arrangements tend to be confidential and tailored to the company's specific situation.

Alternatively, companies may improve their financial position by selling part or all of their assets or business undertakings outside formal court proceedings, using the proceeds to reduce debt and stabilise operations.

Since this process is typically quicker, it can result in lower transaction costs and fees, with the added advantage of less public visibility.

Alternatively, the Corporate Debt Restructuring Committee ("CDRC"), under Bank Negara Malaysia provides a confidential out-of-court platform for companies to restructure debts owed to participating financial institutions. It is useful for coordinated negotiations with banks but does not cover non-bank creditors, so it is often used alongside formal court processes.

(B) Formal restructuring mechanisms

When an informal, out-of-court restructuring is not achievable, the board may need to consider formal Corporate Rescue Mechanisms under the Malaysia Companies Act 2016, such as a Scheme of Arrangement (“SOA”), Judicial Management (“JM”), or a Corporate Voluntary Arrangement (“CVA”).

This could allow it to alleviate the burden of an over-leveraged balance sheet, obtain a moratorium or other protection against ongoing and potential legal proceedings, and sell non-essential assets.

The 2024 enhancements to the Corporate Rescue Mechanisms, which includes a pre-pack scheme, allows companies to negotiate and agree on a restructuring plan with key creditors through informal workouts before formalising the agreed terms through a formal restructuring process. This approach allows for a more orderly and cost-efficient process compared to entering a formal restructuring process without prior creditor consensus.

Deciding which option to take

When evaluating which options they need to take (informal or formal restructuring), the board needs to consider not only the degree of the company's issues but also how those issues influence the path ahead. The company's liquidity position often determines that path.

A broader turnaround plan may be needed to address the company's underlying operational and financial challenges. In some circumstances, without a credible and comprehensive turnaround plan, the company may be merely postponing an inevitable in-court restructuring, potentially resulting in greater complexity and cost. Boards typically have advisors to analyse strategic alternatives and develop a turnaround plan.

As part of this process, advisors commonly develop proforma financial projections to forecast and compare the company's position before and after the proposed turnaround. An integrated three-statement model — comprising the Statement of Profit or Loss, Balance Sheet, and Cash Flow Statement — is usually a key component when assessing the viability of a turnaround plan.

It's essential for companies to gather complete data that will help them determine the right approach. Companies typically have multiple options, and in some cases, they may try more than one. Be mindful of keeping stakeholders up to date as you make these decisions.

A summary of key attributes of each rescue mechanism

Key Attributes	Scheme of Arrangement (SOA)	Corporate Voluntary Arrangement (CVA)	Judicial Management (JM)
Brief description	Court-supervised restructuring where a compromise with creditors is conducted through court-led procedures	Largely out-of-court, debtor-in-possession restructuring proposed to creditors, supervised by an Insolvency Practitioner	Court-supervised corporate rescue where a JM takes control and proposed a rescue plan
Control of company	Existing management	Existing management	Insolvency Practitioner
Court involvement	High	Low	Medium
Creditors landscape	Complex or multi-class creditor structures, including secured and unsecured creditors	Simpler creditor profiles, typically only deals with unsecured creditors	Highly conflicted or enforcement-driven creditors, requiring independent control
Voting thresholds	≥ 75% in value of creditors present and voting in each class; court can impose cross-class cram down on the dissenting class of creditors	≥ 75% in value of creditors present and voting	≥ 75% in value of creditors present and voting

06 Restructuring with people in mind

During a restructuring, directors and management are focused on various hurdles ranging from reorganising, assessing strategic alternatives, consummating transactions, and resolving contracts, to dealing with various stakeholder groups. Even with these commitments, they must not lose sight of how the process affects the company's employees. For instance, a winding-up order can affect a company's ability to pay everything from outstanding bonus awards to salaries.

Situations like these can affect employees' morale and confidence to stay with the company—whether under a new organisational structure or as part of a sale to another company. When dissatisfied employees leave, this may heighten existing reputational risks to the business. Conversely, employees who decide to remain with the company but fear it may not emerge from bankruptcy may worry about their future.

The board should be aware of these challenges and ensure there is a plan to drive consistent communication and support for employees during reorganisation. Maintaining a balanced tone and projecting confidence in a successful emergence from insolvency can alleviate any concerns arising from the restructuring process.



07 Navigating the zone of insolvency

When is a company considered to be in the zone of insolvency? This may occur when the sum of its debts are greater than its assets and it has no reasonable or viable prospect of maintaining its current operations.

Liquidating a company is often the last resort when the earlier restructuring options (explored in Chapter 5) don't work.

If the company is still solvent, winding up is usually undertaken as a Members' Voluntary Winding Up under Section 445 of the Companies Act 2016.

Liquidating the company

If the company is insolvent, however, the Companies Act 2016 provides two routes to winding up.

Section 449—Creditors' Voluntary Liquidation

A Creditors' Voluntary Liquidation occurs when an insolvent company resolves to voluntarily wind up its affairs. Directors acknowledge insolvency, operations cease, and a liquidator is appointed to realise assets and distribute proceeds to creditors in accordance with statutory priorities. Creditors are involved throughout the process.

Section 464—Winding Up by Court

Winding-up by the court is initiated through a court application, typically by creditors, when a company is unable to pay its debts. After the winding-up order is issued, the court appoints a liquidator, business operations stop, and the company's assets are realised and distributed to creditors.

When a financially distressed company enters the zone of insolvency, a board's obligations may change. These changes may be complex, warranting legal advice on how to address their fiduciary duties under the circumstances.

During financial and operational restructurings, directors' approval of transactions normally comes under increased scrutiny by shareholders, creditors, and other stakeholders. As an example, transactions may benefit one set of stakeholders, such as senior secured creditors, to the detriment of shareholders and bondholders. Stakeholders who believe the board is neglecting their rights often challenge board decisions by asserting that directors violated their fiduciary duties, resulting in legal suits. Directors and officers need to have appropriate insurance coverage to manage such risks.



Additionally, stakeholders often conduct investigations after a company enters formal insolvency under the Companies Act 2016 to assess whether there are grounds for legal action against directors and officers. Defending against such claims can be time-consuming and costly, and in more severe cases directors may be held personally liable.

In light of these complexities, directors should seek legal advice when navigating the zone of insolvency. Many boards retain legal and financial advisors to support them in establishing a well-documented and transparent process when making pivotal decisions. Boards can also form a special subcommittee of independent directors to approve significant transactions.

08 Conclusion

Despite the best efforts of management and boards, companies face various financial, operational, and economic risks that can lead to distress. Boards must therefore regularly monitor key performance indicators and remain alert to early warning signs.

Failure to act early significantly reduces the chances of recovery, and may have serious consequences. Before liquidity becomes constrained, the board should ensure management is actively assessing strategic options to stabilise the business.

Periods of distress also bring heightened scrutiny and expanded obligations for directors, often requiring them to balance competing stakeholder interests. With the support of experienced advisors, boards can manage these risks, consider reorganisation options, and navigate distress with greater confidence and control.



How PwC can help

Our Performance and Restructuring advisory team works alongside boards, management, and other key stakeholders to navigate critical moments of change.

We support organisations through every stage of restructuring or reorganisation—from early assessment to execution—bringing clarity, rigour, and momentum when it matters most.

Combining deep restructuring experience with data-driven tools, we help leaders confront difficult decisions early, evaluate viable turnaround options, and implement strategies that protect value and position the business for recovery. Reach out to us to discuss your options and take decisive action.



At PwC, we draw on the collective skills and experience of more than **370,000 people** across our network of firms in **149 countries** to help build trust in society and solve important problems. We believe the opportunities of tomorrow require action today. Speak to us and explore how your business can strategically position itself to drive value and growth.

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