

Financial distress and firm value across the life cycle: A systematic review

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ABSTRACT

Financial distress and corporate restructuring are vital issues affecting firm value across corporate life cycle stages. This review explores how internal factors (capital structure, efficiency) and external factors (markets, regulation) interact with distress and restructuring strategies. Using firm value theory and life cycle models, we examine how companies adapt their financial strategies to sustain value. A systematic literature review (SLR) approach integrates key studies, identifies research gaps, and highlights methodological trends. Findings offer a conceptual framework useful for scholars and practitioners in managing financial distress and sustaining firm value in diverse economic contexts.

INTRODUCTION

In the context of a global economy characterized by increasing volatility, the issues of financial distress and corporate restructuring have emerged as significant focal points in both academic research and managerial practice. Financial distress, which is defined as a company's failure to fulfill its financial obligations, frequently results in detrimental effects for shareholders, creditors, and other stakeholders. In response to this challenge, corporate restructuring is commonly perceived as a strategic approach aimed at reinstating operational viability and maintaining long-term firm value .

A growing body of literature has endeavored to explore the intricate relationships between financial distress, restructuring decisions, firm value, and the various stages of the corporate life cycle. These aspects are most effectively analyzed through the lens of financial theory, which asserts that firm value is influenced by both internal factors – such as capital structure, profitability, and liquidity – and external environmental elements, including market dynamics, regulatory conditions, and macroeconomic fluctuations.

Corporate life-cycle theory offers a particularly insightful perspective for investigating these connections. This theory posits that firms progress through distinct phases – introduction, growth, maturity, and decline – each marked by specific financial challenges and strategic imperatives. In the early and late stages of the life cycle, firms are more vulnerable to financial distress, either due to inadequate internal financing or diminishing market competitiveness, which necessitates customized restructuring strategies to safeguard value.

On the other hand, firm value theory emphasizes how alterations in financial structure and managerial decisions during periods of stress can significantly affect investor perceptions and valuation metrics. Empirical research has consistently demonstrated that financial distress negatively impacts firm valuation, particularly in emerging markets where institutional deficiencies and restricted financial access heighten corporate vulnerabilities.

In order to synthesize and critically assess the current state of knowledge within this domain, the present study employs a systematic literature review (SLR) methodology. SLR is a thorough and reproducible technique for reviewing and synthesizing findings from various studies, which facilitates the identification of knowledge gaps, emerging trends, and ongoing debates. Through the application of this methodology, the current review seeks to clarify the interactions between financial distress, restructuring practices, and the life-cycle stages of firms, and how these factors collectively impact firm value across diverse economic and institutional settings.

This review aims to provide both theoretical advancements and practical implications. For scholars, it clarifies the conceptual foundations while highlighting empirical discrepancies that persist in the existing literature. For practitioners – including corporate executives, investors, and regulatory bodies – it offers evidence-based insights for navigating financial crises and designing effective restructuring strategies that account for firm-specific characteristics and environmental conditions. Furthermore, this study clarifies the role of the firm life cycle in shaping restructuring decisions and vulnerability

to financial distress, examines how corporate governance moderates these outcomes, and underscores the context-dependency of financial models in emerging markets. It also identifies the need for dynamic, multi-variable approaches that capture the complexity of distress and restructuring, while recognizing digital transformation as a crucial enabler of organizational adaptability during crises.

LITERATURE REVIEW

The literature indicates that financial distress is inherently linked to firm value, but the strength and direction of this relationship vary across life-cycle stages, governance structures, and institutional environments. While early-stage firms are more vulnerable, mature firms also face risks of rigidity. Governance plays a crucial moderating role, and emerging markets introduce unique contextual factors that challenge the universality of existing theories. Methodological advances and digital transformation offer promising directions for both scholars and practitioners.

Financial Distress and Firm Value

Financial distress has long been recognized as a critical determinant of firm value, primarily because it undermines stakeholders' confidence and increases the likelihood of bankruptcy (Altman, 1968; Ohlson, 1980). Empirical studies highlight that distress erodes shareholder wealth through declining stock prices, higher cost of capital, and reduced access to external financing (Whitaker, 1999; Platt & Platt, 2002). In emerging markets, the negative impact is often magnified due to weaker investor protection and less developed capital markets (Claessens et al., 2001). Nonetheless, some evidence suggests that firms engaging in proactive restructuring may mitigate value deterioration and even enhance long-term recovery (Gilson, 1997; Andrade & Kaplan, 1998).

Firm Life Cycle and Susceptibility to Distress

The corporate life cycle framework provides a lens to understand varying vulnerability to distress. According to Dickinson (2011), firms at the introduction and growth stages typically face higher financing constraints, limited cash reserves, and uncertain earnings, making them more prone to financial distress. Conversely, mature firms, while financially stronger, may suffer from rigid structures and declining innovation, exposing them to operational inefficiencies. Empirical research supports that distress probability and its consequences for firm value differ significantly across life-cycle stages (Hasan et al., 2015; Habib & Hasan, 2017). This suggests that the interaction between life cycle and financial health is crucial in explaining firm value outcomes.

Restructuring Decisions Across the Life Cycle

Restructuring strategies are often contingent upon a firm's position in its life cycle. Younger firms frequently resort to equity financing due to limited debt capacity (Berger & Udell, 1998), while more established firms rely on debt restructuring or operational reorganization (Hotchkiss, John, Mooradian, &

Thorburn, 2008). Studies also reveal that family firms, often concentrated in emerging markets, adopt different restructuring approaches influenced by governance and ownership structures (Anderson & Reeb, 2003; Roida, 2020). The effectiveness of restructuring strategies in preserving or enhancing firm value is therefore context-dependent, shaped by both life-cycle stage and institutional environment.

The Role of Corporate Governance

Corporate governance mechanisms play a moderating role in distress-value dynamics. Strong governance can reduce agency costs, align managerial incentives with shareholder interests, and improve transparency during restructuring (Shleifer & Vishny, 1997; Claessens & Yafeh, 2012). Empirical findings demonstrate that firms with independent boards, higher institutional ownership, or better disclosure practices experience less value erosion during distress episodes (Gompers, Ishii, & Metrick, 2003; Manzanque, Priego, & Merino, 2016). Conversely, weak governance exacerbates value destruction, particularly in environments with concentrated ownership and poor legal enforcement, as often found in emerging markets.

Emerging Markets and Institutional Context

Institutional factors in emerging economies significantly shape distress-value relationships. Limited investor protection, underdeveloped bond markets, and high information asymmetry intensify the negative effect of distress on firm value (La Porta et al., 1998; Khanna & Palepu, 2000). At the same time, state intervention and relational banking can provide implicit safety nets, softening the immediate impact of distress (Faccio, Masulis, & McConnell, 2006). Studies from Indonesia, India, and Latin America suggest that life-cycle stages interact with these institutional conditions, making models developed in advanced economies less generalizable (Abor & Biekpe, 2006; Aljughaiman et al., 2023).

Methodological Advances in Measuring Distress

The traditional reliance on Altman's Z-score and Ohlson's O-score has been critiqued for oversimplification and static assumptions (Altman, 1968; Ohlson, 1980). Recent research incorporates dynamic, multi-variable models that integrate governance variables, macroeconomic indicators, and machine learning techniques to improve predictive accuracy (Shumway, 2001; Bharath & Shumway, 2008; Abedin et al., 2022). These approaches are particularly relevant for volatile environments and provide stronger insights into how distress translates into firm value erosion across different stages of the life cycle.

Digital Transformation as a Resilience Mechanism

The COVID-19 pandemic underscored the importance of digital transformation in mitigating distress and sustaining firm value. Firms with higher levels of digital integration and adaptive organizational structures were more resilient, while traditional sectors without digital adoption suffered heightened vulnerabilities (Kraus et al., 2020; Verhoef et al., 2021). This supports the argument that digital capabilities enhance adaptive restructuring,

complementing life-cycle and governance effects in shaping value outcomes during crises.

METHODOLOGY

This research employs a Systematic Literature Review (SLR) methodology to thoroughly examine the existing body of work concerning the interactions between financial distress, corporate restructuring, firm life cycle, and firm value. The SLR method is especially effective for integrating intricate theoretical connections across various empirical studies and for pinpointing research deficiencies within disjointed literature.

The review was carried out in three main phases: identification, screening and evaluation, and synthesis and reporting, adhering to the guidelines set forth by the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework.

Identification

Relevant literature was located through focused searches in academic databases and journal repositories, such as Google Scholar, ScienceDirect, Emerald Insight, and various other peer-reviewed platforms. To maintain quality and relevance, only articles published within the past decade (2014–2024) were taken into account. This period reflects current advancements in financial risk, restructuring strategies, and life-cycle theory across both emerging and developed markets.

The keyword combinations employed included: financial distress, corporate restructuring, firm value, firm life cycle, and capital structure. Furthermore, visual academic search engines like Connected Papers (<https://www.connectedpapers.com/>) and Open Knowledge Maps (<https://openknowledgemaps.org/>) were utilized to visualize research clusters and trace conceptual connections among publications.



Figure. 1 SLR Process Flow

Screening and Evaluation

In order to assess the reliability and influence of the chosen articles, bibliometric instruments such as SINTA (Science and Technology Index provided by Indonesia's Ministry of Education) and the "SCImago Journal Rank" (SJR) were utilized. These instruments facilitated the identification of credible sources and high-impact journals pertinent to the domains of finance, economics, and management.

During the screening process, duplicate entries, documents that could not be accessed, non-peer-reviewed sources, and studies that did not demonstrate empirical or theoretical robustness were eliminated.

Synthesis and Reporting

In the synthesis phase, a thorough analysis of studies was conducted to extract essential research findings, methodologies, theoretical frameworks, and contextual factors (e.g., country, industry, firm size). Thematic coding was employed to classify the literature into fundamental domains: determinants and indicators of financial distress, stages of the corporate life cycle, restructuring strategies, and their effects on firm value.

The analytical process culminated in a comprehensive summary of 30 articles that encompass various regions—primarily emerging economies—and utilize a range of methodologies, such as regression analysis, discriminant models, panel data econometrics, and case studies.

This systematic review seeks to pinpoint theoretical, empirical, and methodological deficiencies within the literature. It lays the groundwork for future research and equips practitioners with practical insights to tackle financial distress and enhance restructuring decisions in accordance with a firm's life-cycle stage.

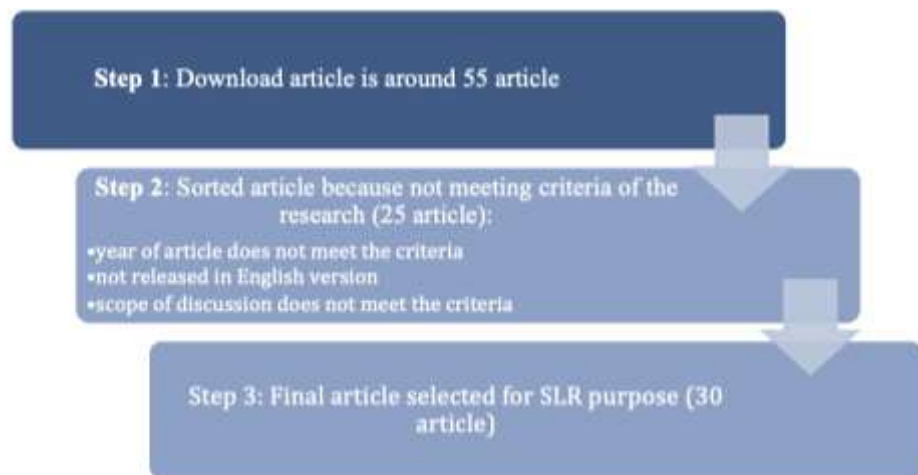


Figure. 2 PRISMA Stages

RESULTS & DISCUSSION

This systematic literature review (SLR) investigates the intricate and interrelated dynamics between financial distress, corporate restructuring, the corporate life cycle, and firm value, especially within the framework of emerging markets. The 30 peer-reviewed articles examined encompass a variety of geographies, industries, and methodological strategies, uncovering notable theoretical and empirical trends that warrant further exploration.

Financial Distress in Emerging Markets

The existing body of literature consistently emphasizes that companies operating within developing economies are more susceptible to financial distress, primarily due to macroeconomic volatility, underdeveloped financial

markets, and fragile institutional frameworks. Key indicators of financial distress typically encompass low profitability, excessive leverage, inadequate liquidity, and smaller firm size.

The Altman Z-Score is regarded as one of the most prevalent instruments for the early detection of financial distress. Nevertheless, research has indicated that its predictive effectiveness may differ across various countries and sectors, leading to the creation of supplementary models such as the Ohlson O-Score, probit models, and hybrid techniques based on machine learning.

In addition to quantitative metrics, governance-related factors—such as the independence of the board, ownership structures, and managerial incentives—are increasingly acknowledged as vital components in fostering financial resilience. Organizations that engage in transparent reporting and adopt proactive risk management strategies are more likely to foresee and alleviate the impacts of financial distress.

COVID-19: Shock Amplifier and Sectoral Divergence

The COVID-19 pandemic significantly exacerbated financial fragility in multiple sectors. Archanskaia et al. noted that up to 30% of EU firms faced heightened liquidity needs, while 10% were at serious risk of bankruptcy by 2021. Vulnerability was highly industry-specific: tourism, hospitality, and traditional retail experienced dramatic revenue declines, whereas sectors like digital services, e-commerce, and logistics demonstrated adaptability and even growth.

This divergence aligns with contingency theory, suggesting that resilience depends on strategic alignment between firm capabilities and external shocks. Firms with digitized models, flexible cost structures, and diversified revenue streams weathered the pandemic more effectively.

Life-Cycle Stage and Financial Strategy

Corporate life-cycle theory posits that firms face distinct financial and operational challenges across their development stages: introduction, growth, maturity, and decline. Numerous studies confirm that life-cycle positioning mediates both the risk of distress and the choice of restructuring strategy.

For instance, early-stage firms often lack internal funds and opt for equity restructuring, while mature firms with stable cash flows tend to pursue debt restructuring or asset optimization. However, Hannna Wijaya found a contrary pattern in Indonesian firms: profitability positively influenced debt issuance in the introduction phase, and negatively in the maturity phase, challenging the traditional pecking-order theory.

Good governance can also moderate the influence of life-cycle stages. Sari revealed that strong governance mechanisms reduce excessive managerial restructuring, especially during vulnerable early stages.

Corporate Restructuring and Firm Value

Corporate restructuring is a key mechanism for navigating financial instability and includes strategic changes in capital structure, asset ownership,

operations, and governance. Studies agree that well-executed restructuring enhances long-term firm value—but outcomes depend on timing, industry conditions, and managerial competence.

Asset restructuring, for instance, can unlock capital tied to underperforming assets, while financial restructuring addresses leverage imbalances. Yet, reactive or poorly timed efforts can further erode firm value, especially in crisis periods without adequate institutional support.

Restructuring efforts during COVID-19 emphasized the importance of preemptive strategies and quality financial information for investor confidence.

Research Gaps and Future Directions

This SLR highlights two major gaps:

1. Evidence Gap: The interaction between life-cycle stage, financial distress, and restructuring strategy remains highly contextual. Studies from different countries often yield conflicting findings, suggesting a need for cross-country comparative analysis.
2. Methodological Gap: Traditional models that depend on financial ratios exhibit limitations in their predictive capabilities. Newer methodologies—such as dynamic panel models, scenario simulations, and AI-enhanced analytics—show potential yet are still not widely applied.

Furthermore, research has not yet thoroughly investigated the capacity of digital transformation to alter firm adaptability in times of distress. Brahim and Ez-zoubi [36], in their bibliometric review, highlighted the role of organizational change strategies facilitated by digital tools in fostering structural resilience. Future research should also consider how digitization influences the impact of governance and financial limitations on the effectiveness of restructuring in emerging markets.

Moreover, the convergence of sustainability principles—especially ESG (Environmental, Social, and Governance) factors—with restructuring practices is still significantly under-researched. Companies that effectively integrate ESG considerations may benefit from increased stakeholder trust and the preservation of long-term value during periods of financial recovery. An empirical investigation into how ESG ratings affect distress outcomes across various industries and stages of the business life cycle could yield important insights for both investors and regulators. Additionally, behavioral aspects such as managerial biases during financial stress—such as overconfidence or loss aversion—should be factored into restructuring models. A behavioral finance perspective may reveal the reasons behind the differing crisis strategies adopted by firms facing similar financial challenges.

A future research agenda should integrate multi-level models that incorporate macroeconomic volatility, sectoral trends, governance variables, and life-cycle stages to better explain and predict firm responses to financial shocks.

Table 1. Summary of Key Themes

Theme	Insight
Financial distress	Emerging markets face higher risks due to structural and institutional gaps.
COVID-19 impact	Industry-specific effects; digital and adaptable firms were more resilient.
Life-cycle influence	Determines financial flexibility and restructuring choices.
Governance & performance	Strong governance moderates distress and improves restructuring effectiveness.
Theory limitations	Classical models (e.g., pecking order) may not fully explain firm behavior in developing contexts.

CONCLUSIONS AND RECOMMENDATIONS

This systematic literature review has explored the complex interconnections between financial distress, corporate restructuring, firm life cycle, and firm value, especially in the context of emerging markets. The results highlight that financial distress is a multifaceted issue influenced by both internal and external elements, including firm-specific indicators such as profitability, leverage, liquidity, and governance structure, along with macroeconomic and sectoral conditions.

The review indicates that the stage of the corporate life cycle significantly mediates the susceptibility to financial distress and the strategic restructuring options available to firms. Companies in the early stages often lack financial reserves and therefore tend to favor equity restructuring, whereas more established firms are better positioned to pursue debt or operational restructuring. Nonetheless, deviations from traditional financial theories, such as the pecking-order model, have been observed in certain developing economies, questioning the universality of these frameworks.

The influence of external shocks, particularly the COVID-19 pandemic, has emphasized the necessity for firms to implement adaptive financial structures and governance mechanisms. Sectors with higher levels of digital integration and operational flexibility demonstrated greater resilience, while traditional industries experienced heightened distress. This underscores the importance of contingency theory in financial strategy during crisis situations, suggesting that firms should invest in digital transformation and flexible governance frameworks to enhance resilience.

From a methodological standpoint, although models like the Altman Z-Score and Ohlson O-Score remain prevalent in predictive frameworks, the literature highlights the drawbacks of depending solely on static ratio-based indicators. Emerging methodologies that integrate machine learning, governance variables, and macroeconomic context present promising, yet underexploited, avenues for research. Therefore, future studies should focus on developing hybrid models that

combine financial ratios, governance factors, and real-time macroeconomic indicators, while practitioners and regulators are encouraged to adopt these dynamic tools for early warning systems and more effective restructuring interventions.

FURTHER STUDY

This research adds to the existing body of literature by delivering a thorough synthesis of contemporary knowledge, emphasizing significant evidence gaps and methodological constraints, while also providing a contextualized perspective on how companies manage financial distress via restructuring strategies. The primary contributions encompass:

1. Clarifying the role of firm life-cycle in determining restructuring decisions and vulnerability to financial distress.
2. Integrating corporate governance as a moderating factor in restructuring outcomes [29, 18, 6, 16].
3. Emphasizing the context-dependency of financial models, especially in emerging markets where institutional differences affect model applicability.
4. Identifying the need for dynamic, multi-variable models that capture the complexity of distress and restructuring in volatile environments, while also recognizing the role of digital transformation in supporting adaptive organizational change during crises [20, 36].

Future research should focus on longitudinal studies across regions to assess how life-cycle dynamics evolve under different macroeconomic conditions. Additionally, comparative cross-country analyses and sector-specific investigations are needed to refine theoretical models and offer more tailored financial solutions. Policymakers and practitioners would benefit from studies that integrate macroprudential variables, institutional quality, and technological adaptability to enhance crisis preparedness and value preservation strategies.

In conclusion, the interplay of financial distress and restructuring transcends mere technical issues; it is intricately linked to the maturity of the firm, its strategic direction, and the surrounding institutional framework. An approach that is nuanced, adaptable, and grounded in evidence is crucial for protecting firm value and fostering financial stability in an ever more complex economic landscape.

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