Board Attributes and Financial Distress during Health Crisis: Evidence from Malaysia

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ABSTRACT

This study explored how corporate governance mechanisms influence the financial distress of companies listed on Bursa Malaysia. The sample comprised 590 companies from the Bursa Malaysia Main Market during 2020- 2021. The study examined the impact of corporate governance elements (board gender diversity, foreign directorship, and expertise, size, meeting, and independence) on financial distress, the latter being the dependent variable. While the COVID-19 pandemic impacted various aspects of businesses, including performance, governance, dividends, liquidity, and debt, the specifics of its effects are not well-established. The research indicated that the expertise of boards had a significant negative effect on financial distress, while gender diversity and foreign directorship, boards' size, meetings, and independence had positive impacts. However, board size, board meetings, and board independence were insignificant. This study contributes empirical evidence on the relationship between corporate governance and financial distress during Malaysia's COVID-19 pandemic, filling a gap in the existing literature. Importantly, it offers practical insights for decision-makers in emerging economies regarding board composition and responsibilities that support governance mechanisms and mitigate financial distress.

Keywords: Corporate Governance, Board Expertise, Size, Meeting, Independence, Gender Diversity, Foreign Directorship, Financial Distress

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INTRODUCTION

The rise in corporate scandals and business failures has recently brought heightened attention to corporate governance (CG) (Alabede, 2016). CG mechanisms aim to safeguard shareholders' interests, and strong CG can positively impact a country's economic progress (Alabdullah et al., 2022). However, due to mounting instances of corporate scandals like Enron and WorldCom, doubts arise about the effectiveness of current CG systems in preventing such incidents (Alabede, 2016). According to Core et al. (1999), inadequate CG structures can lead to agency issues and financial troubles for companies. After the 1997 financial crisis, Asian nations revised and reinforced their regulatory frameworks, focusing on corporate governance (CG), transparency, and disclosure (Ho & Wong, 2001). Furthermore, due to the fallout from the 1997 crisis and global financial scandals involving major firms like Enron, WorldCom, Lehman Brothers, and American Investment Group, the discussion on the influence of corporate governance on company financial distress has gained momentum. Prior research has mainly examined how CG factors impact the likelihood of bankruptcy (Suffian et al., 2022) and predict financial distress (Ghazali et al., 2018; Li et al., 2020). In this context, the effectiveness of a company's board of directors holds a pivotal role in safeguarding against excessive vulnerability to financial distress and bankruptcy.

Recently, since it was initially reported in December 2019, the term Coronavirus, also known as COVID-19, has gained prominence in Malaysia. COVID-19 has badly impacted this country and has expanded swiftly over the world (Khatib & Nour, 2021). It continues to spread unexpectedly, posing a substantial threat to all economies, primarily the operations of listed corporations. The COVID-19 pandemic has had varied degrees of influence on Malaysia's economic activities in this regard. Some of these include supply-side disruptions to trade and production, a sudden but brief decline in domestic consumption during the outbreak, a potential decline in investment, a decline in tourism and business travel, and spillovers of weaker demand to other sectors and economies via trade and production linkages (Boone et al., 2020). The role of the good practices of corporate governance is notably important during this time, as it helps determine which functions contribute most to business value amid disruptive events, given that various stakeholders closely scrutinize boards (Croci, 2020).

According to Wruck (1990), a corporation would enter financial distress because of economic distress, inadequate management, or a drop in performance. According to the Organization for Economic Cooperation and Development (OECD), when a firm is in a financial crisis, it exposes a major deficit in the organization's corporate governance. When a corporation is in the most critical circumstances, the current rules, processes, or policies fail to offer the necessary checks and balances to foster strong business operations (Fung, 2014). Considering this, establishing a sound board of directors (BOD) can aid in avoiding financial distress.

The BOD is known for overseeing company policies and approving strategic plans for achieving financial and social goals (Van Greuning & Bratanovic, 2020). Thus, it is important to investigate how demographic aspects of the board might influence these decisions. Previous research examining the BOD's role in corporate disclosure has mostly looked at the independence of the BOD and its committees from an agency perspective, or its structure, skills, and experience from a resource perspective (Murugason et al., 2023; Nimer et al., 2023). However, unlike these perspectives, Huse et al. (2009) argued that diverse knowledge and skills among board members lead to better decision-making compared to judgments from a homogeneous group. Board members are expected to contribute their various expertise during discussions, which can translate into innovative products, processes, and services that enhance the company's financial performance (Huse et al., 2009; Suffian et al., 2023).

Over the last two decades, discussions about women's roles on corporate boards have grown more intense. Benkraiem et al. (2017) indicated that female directors influence corporate governance strategies and diverse board genders impact decision-making and managerial oversight. Female directors contribute to better governance quality, transparency, monitoring, and protecting shareholder interests. The Agency Theory suggests that women on boards oversee strategies to align shareholder and management concerns (Guizani & Abdalkrim, 2022). The 2017 Malaysian Corporate Code of Governance (MCCG) aimed for 30% of women directors on large company boards, with Securities Commission of Malaysia (SC) pursuing the same for listed companies by 2020. However, just 25.3% of the top 100 listed firms have women directors. The 2021 MCCG now urges all boards to have 30% women directors, aiming to hasten women's representation on boards.

The financial distress literature points to two main potential causes: (i) credit institutions and financial creditors not foreseeing and preventing financial distress situations; and (ii) an inadequate recognition of the significance of effective corporate governance mechanisms in this context (Li et al., 2021). Nevertheless, recent times have seen critiques of corporate governance, particularly regarding the diversity of boards of directors in terms of gender and their skills, compounded by a significant decrease in foreign directorship among Malaysian companies (Banerjee et al., 2020). Hence, this study aimed to assess how corporate governance mechanisms impact the financial distress of publicly listed companies in Malaysia.

Financial distress is a critical facet of contemporary economic landscapes, affecting businesses and economies alike. This study delved into the intricacies of financial distress, aiming to provide a comprehensive understanding of its underlying factors, consequences, and potential mitigation strategies. The motivation behind this research stemmed from the growing recognition of the profound impact that financial distress can have on the stability and growth of businesses, prompting an urgent need for a more nuanced exploration of this multifaceted issue. In recent years, global markets have witnessed an increase in the frequency and severity of financial distress among businesses across various industries. This phenomenon has been exacerbated by economic uncertainties, changing market dynamics, and unforeseen events such as the recent financial health of the Covid-19 pandemic. The repercussions of financial distress extend beyond individual companies, reverberating through entire industries and economies. As such, there is a compelling need to unravel the complexities of financial distress to foster a proactive approach to its identification, management, and prevention.

The decision to investigate the impact of CG on financial distress during the Covid-19 period was driven by a confluence of factors that collectively contribute to the understanding of the intricate relationship between governance practices and financial resilience (Ariff et al., 2023). While it is acknowledged that the increase in financial distress during this period is not primarily caused by CG, the unique circumstances presented by the global pandemic offer a valuable lens through which to scrutinize the efficacy of governance structures in times of crisis. The COVID-19 pandemic unleashed unprecedented economic disruptions, creating an environment where businesses faced unforeseen challenges, ranging from supply chain disruptions to demand shocks. These challenges, in many instances, accentuated pre-existing vulnerabilities within companies. Examining the impact of CG during this period allows for an exploration of how well governance mechanisms coped with unforeseen stressors and whether they played a role in mitigating or exacerbating financial distress.

The crisis provided a unique opportunity to stress-test the governance mechanisms in place within companies. It allowed us to investigate whether robust governance structures could act as a bulwark against financial distress or if weaknesses in governance exacerbated the impact of external shocks. By focusing on the Covid-19 period, our study aimed to provide insights into the adaptability and effectiveness of CG practices during times of extreme uncertainty. Moreover, the findings from this study bear relevance beyond the immediate context of the pandemic. They can contribute to a broader understanding of the long-term implications of governance practices on financial resilience. Lessons learned from how companies navigated the challenges during the COVID-19 period can inform future governance frameworks, aiding in the development of strategies that enhance corporate resilience in the face of diverse and unpredictable challenges. While it is acknowledged that the increase in financial distress during the COVID-19 period is multifactorial, including macroeconomic factors, global uncertainties, and industry-specific challenges, the investigation into CG allows for a comprehensive analysis. By understanding how governance practices interact with these external factors, we can offer nuanced insights into the role of CG in shaping a company's response to financial distress, even when such distress is influenced by a complex interplay of variables.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

In Malaysia's attempts to encourage corporate governance practices among publicly traded firms, the establishment of the Malaysian Code on Corporate Governance (MCCG) in 2000 was a significant turning point. The MCCG offers guidelines and suggestions for best practices to enhance the effectiveness, accountability, and openness of boards (Salin et al., 2019). In 2007, 2012, and most recently in 2021 revisions were made to the original MCCG. With each version, new practices and suggestions were included to assist in improving corporate governance standards in step with changing circumstances and world events. Stronger sustainability initiatives, steps to increase board diversity, particularly in terms of women, and improvements to board foundations and governance standards are just a few of the significant changes made by MCCG 2021 (Khatib et al., 2021; Shamsudin et al., 2022). Hence, this study considered the elements of boards' gender diversity, foreign directorship, board expertise, board size, board meetings, and independent directors.

In the context of the observed relationships between CG variables and financial distress in this study, it was essential to contextualize the findings within the existing body of research. Previous studies have delved into the intricate dynamics between CG practices and financial distress, offering insights that contribute to the broader understanding of these relationships (Nustini & Mohd Sufian, 2021; Salin et al., 2019) which found the interplay between CG factors and financial distress. Previous studies have debated the impact of board composition, including the size, independence, and diversity of boards, on financial distress (Guizani & Adbalkrim, 2023; Naciti, 2019). There is often discussion about the ideal board structure that fosters effective decision-making and risk management, which in turn influences a firm's ability to navigate financial challenges.

Boards' Gender Diversity

Gender diversity on boards is covered under Practise 4.51 of the MCCG 2021. Boards should strive for a mix of skills, experience, gender, age, ethnicity, and nationality, according to the practice (Katmon et al., 2019). The recommendations also encourage businesses to implement a documented gender diversity policy, reveal their diversity goals and their progress towards them, and offer training and development opportunities to all directors to improve their qualifications. The MCCG 2021 acknowledges the value of board diversity in raising a company's effectiveness and success. A diverse board is more likely to make wiser judgments, be more creative, and enhance overall governance procedures, according to research. Another important sign of a company's commitment to fostering diversity and inclusion within its organisation is the practice of gender diversity on board.

It is important to note that MCCG 2021 did not set a specific target for women's board representation. Instead, it prompted companies to create their own goals aligned with their unique circumstances and monitor their progress in achieving diversity objectives (Atayah et al., 2022). However, in line with the government's aim for women's leadership participation in all sectors, the rules recommend businesses to maintain at least a 30% female presence on boards. In conclusion, MCCG 2021 recognizes the significance of gender diversity in CG and encourages companies to adopt practices and policies promoting gender equality. Enhancing board diversity can offer diverse perspectives and skills, potentially leading to improved decision-making and performance.

Foreign Directorship

The MCCG 2021 encourages businesses to have a flexible and inclusive approach to board appointments and to consider the unique needs and circumstances of their organisation when appointing directors with international credentials or experience. As a result, the code did not specify the precise composition of foreign directors in the board composition (SC, 2021). Companies should have a variety of directors with different backgrounds, credentials, and experience, particularly those with international expertise, according to Practise 4.11 of the MCCG 2021. The practise acknowledges that adding directors with foreign credentials or experience to a board can provide it access to valuable skills, expertise, and viewpoints.

The rules recognise that adding directors with foreign credentials or experience to a company's board can provide it access to important skills, expertise, and viewpoints (Nekhili & Gatfaoui, 2013). Companies can gain from a wider range of viewpoints and skills by hiring foreign directors, which can result in better decision-making and enhanced governance practices. It's crucial to remember that the guidelines provide no recommendations on the number or percentage of foreign directors a company's board should have. Instead, when choosing directors with foreign degrees or experience, businesses are encouraged to consider the unique requirements and circumstances of their organisation. Additionally, MCCG 2021 advises businesses to include information on the board's composition, including the number of foreign members, their backgrounds, and the selection criteria, in their annual reports. This encourages accountability and openness in the selection of directors from a variety of backgrounds.

Board Expertise

The MCCG 2021 outlines standards for the composition of a company's board. Emphasizing diversity, Practice 4.10 suggests including directors from various backgrounds, educational levels, and experiences, especially those relevant to the industry. The MCCG underscores the importance of a well-rounded director team for effective management and strategic execution. Practice 4.9 encourages companies to evaluate and tailor their board structure to align with strategic objectives, considering factors such as sector, size, and growth prospects. To ensure board effectiveness, companies should periodically review directors' expertise, abilities, and experiences, as recommended by Practice 4.10. This involves assessing collective skills and identifying areas needing specialized knowledge. A balanced mix of executive and non-executive directors is advised, each possessing qualifications to provide impartial oversight and diverse perspectives (Kanakriyah, 2021). The rules stress the significance of independent directors with industry-specific knowledge to fulfil fiduciary duties and challenge management. This enhances decision-making and monitoring capabilities, offering valuable guidance.

In summary, MCCG 2021 urges diversified boards with industry-relevant backgrounds and experiences. Regular assessments and a blend of executive and non-executive members foster effective oversight and decision-making. Independent directors with specific expertise ensure fiduciary responsibilities are met, enhancing overall governance and management counsel.

Board Size

The MCCG 2021 places significant emphasis on the significance of maintaining a board of directors that is of suitable magnitude to enable efficient decision-making and governance. The code implies that the board's composition and dimensions should be designed in a manner that facilitates efficient supervision and encompasses a broad spectrum of abilities and knowledge. According to Nahar (2021), it is noteworthy to mention that the MCCG 2021 did not stipulate a definitive numerical value for board size, as the most suitable size may differ based on the characteristics and intricacies of the particular organisation. On the contrary, the code promotes the practise of corporations determining their board size in accordance with their unique circumstances and requirements. The MCCG also emphasises the significance of maintaining a proper equilibrium between the quantity of executive directors and independent non-executive directors serving on the board. Independent non-executive directors are persons who lack substantial financial or personal connections to the organisation, hence enabling them to maintain objectivity and impartiality in their decision-making processes.

In short, the MCCG 2021 advises firms to evaluate their board size in accordance with their specific needs and strive for a well-rounded composition that incorporates independent non- executive directors in order to foster the implementation of efficient corporate governance practices.

Board Meeting

The MCCG 2021 places significant emphasis on the necessity of frequent board meetings in order to facilitate efficient governance and decision- making processes. According to Veltrop (2021), regular board meetings give a platform for directors to engage in discussions and deliberations pertaining to significant issues, evaluate the performance of the organisation, and exercise their supervisory role. Although the MCCG 2021 did not prescribe a precise minimum number of board meetings, it is widely acknowledged as a best practise for boards to convene on a quarterly basis (Rahman et al., 2021). This facilitates the frequent exchange of ideas and assessment of the operational effectiveness of the organisation, as well as the formulation of long-term goals and the resolution of any emergent challenges. However, organisations may opt to convene board meetings with more frequency, contingent upon their individualised requirements and contextual factors. Certain governing boards may opt to convene on a monthly basis, particularly when operating within rapidly evolving sectors or encountering intricate obstacles that necessitate more regular deliberations and decision-making.

In summary, the establishment of an equilibrium between the frequency of organisational meetings and the allocation of adequate time for substantive discussions and decision-making is a crucial consideration for organisations.

Independent Directors

According to the MCCG 2021, it is recommended that a minimum of 50% of the board members of a listed business should consist of independent directors. As per MCCG 2021, independent directors assume a pivotal function in offering impartial and autonomous assessments to the board. The individuals are anticipated to provide a range of various viewpoints, actively question, and critique management practises, and make valuable contributions to the process of making successful decisions. According to Bencomo (2021), independent directors refer to persons who do not engage in the company's daily activities and maintain impartiality by avoiding conflicts of interest that may undermine their neutrality. External perspectives and independent judgements are offered by these individuals, serving as a means to oversee and balance the actions of the board and management. The primary responsibilities of individuals in this position encompass the protection of shareholders' interests, the enforcement of legal and regulatory requirements, and the advancement of sound corporate governance principles (Guluma et al., 2021).

The presence of independent directors within corporate boards is of utmost importance in ensuring the efficacy of corporate governance. The suggestion put out by the MCCG 2021, which suggests that a minimum of 50% of board members should be independent directors, underscores the importance attributed to their function in upholding transparency, accountability, and ethical behaviour within corporate entities.

Financial Distress

Financial distress refers to a situation when a company struggles to meet its financial obligations or encounters difficulty in doing so (Wu et al., 2008). Companies facing financial distress, as described by Chan and Chen (1991) and Idris et al. (2015), often exhibit poor performance, inefficiency, high financial leverage, and cash flow issues, resulting in reduced market value. Such companies are vulnerable to economic changes and less able to withstand unfavourable conditions, leading investors to demand compensation for taking on the risk. Lamont, et al. (2001) state that financially distressed businesses can't fund desired projects due to factors like credit constraints, difficulty in borrowing, reliance on bank loans, or asset illiquidity. This does not necessarily mean they are experiencing economic suffering or at risk of bankruptcy, even though these factors could be linked to financial limitations. Generally, financial problems arise when the value of liabilities equals assets (Ross et al., 2013).

The Z-Score model is dynamic and evolves with the company's circumstances and the context in which it is applied. Financial distress, according to Kisman and Krisandi (2019), signifies a decrease in financial health before insolvency. If unaddressed, it can lead to significant repercussions, including loss of stakeholder trust and bankruptcy. Financial distress encompasses various situations where a company faces financial troubles, including bankruptcy, economic incapacity, and corporate default. Factors like debt repayment failures, legal issues, high interest rates, and global conditions can affect a company's profitability. Sustaining a stable financial position is crucial for businesses aiming to grow and diversify while avoiding the pitfalls that led to bankruptcy in other cases. Financial distress occurs when a company cannot meet payment deadlines, or its cash flow projections indicate upcoming challenges. It arises when a company's income falls short of expenses, leading to losses for creditors. This is a sign of potential economic collapse (Setyowati, 2019).

Hypothesis Development

Board gender diversity and financial distress

The Agency Theory is one authoritative perspective on the influence of board diversity on company financial crisis (Yousaf et al., 2021). According to the agency's viewpoint, a diverse board strengthens management's monitoring function by bringing together directors from various experiences and perspectives (Benkraiem et al., 2017). Board gender diversity might be utilised to control agency difficulties (UlAin et al., 2020). It is then regarded as a decent CG device in terms of board composition.

According to Carteret et al., (2003), improved monitoring that results in more informed decisions is made possible by a gender diverse board. Gender diversity on boards, according to Adams and Ferreira (2009), enables better oversight since females ask more questions and are less likely to disturb shareholders' interests and minimising agency conflicts. According to Loukil et al. (2019), gender diversity on the board delivers more substantial monitoring advantages to shareholders, resulting in lower agency costs.

Previous research has looked at the association between board gender diversity and financial distress. According to the Agyei-Mensah et al. (2021), the participation of women on boards improves board performance and minimises financial strain. Darrat et al. (2016), for example, found that firms with a higher proportion of female board representation are less likely to declare bankruptcy, which is consistent with studies that found a positive relationship between board gender diversity and operating performance attributable to improved monitoring (Adams and Ferreira, 2009; Benkraiem et al., 2017; UlAin et al., 2020). Kristanti et al. (2016) emphasised that gender diversity on corporate boards can improve financial performance and help firms avoid financial distress.

Conversely, Maghfiroh et al. (2020) discovered that gender diversity can increase the link between profitability and financial distress. This can be explained by the fact that women are more cautious, possess keen business intuition, and have detailed observation abilities that are important in understanding business consequences and dangers. Additionally, the presence of women can attenuate the impact of the activity ratio on the value of the company, even though the activity ratio does not significantly affect the value of the firm in this study. Therefore, gender diversity does not mitigate the impact of liquidity and leverage on company value. As a result, the following hypothesis was suggested:

H1: There is a positive relationship between board gender diversity and financial distress.

Foreign directorship and financial distress

Scholars are more concerned about the nationality of directors or the presence of foreign directors on boards because of the labour market's rapid and advanced globalisation (Masulis et al., 2012; Zaid et al., 2020). Although most academic researchers pay little attention to the nationality of board members, a limited number of studies have shed light on this subject. The most well-known study on the nationality of directors was carried out in 2003 by Oxelheim and Randy utilising an American data set. National diversity among directors is subject to both costs and advantages. Since board members of different nationalities contribute more knowledge and suggestions for expanding operations internationally and are better communicators than other members (Tuggle et al., 2010), they eventually contribute to the superior and favourable firm performance (Zaid et al., 2020).

Similar to this, foreign directors of diverse nationalities, according to the Upper Echelon Theory and Resource-based Viewpoint, provide a diversity of cognitive talents and capacities to the board and decision-making process, which aids in the making of innovative strategic decisions (Hambrick & Mason, 1984). According to Nielsen and

Nielsen (2013) on Swiss multinational corporations, there was a correlation between financial distress and a board with a diverse nationality. To successfully contribute to strategy planning and improve organisational financial distress, heterogeneous boards with members of different nationalities can work more creatively (Zaid et al., 2020). On the other hand, a small number of researchers contested the claims made by the Upper Echelon Theory and assert that board heterogeneity causes group conflicts (Williams & O'Reilly, 1998) and that national heterogeneity causes communication problems, raises agency costs, and lowers organisational commitment (Tsui et al., 1992). Masulis et al., (2012) concluded that a nationally diverse board results in ineffective oversight by foreign directors and raises agency costs. Foreign directors are likely to be more independent, which from the perspective of the Agency Theory connects to greater monitoring and probably to a lesser chance on financial trouble, according to Ruigrok et al. (2007). However, diversity has been shown to have detrimental consequences on group identification, work satisfaction, and communication amongst group members (Milliken & Martins, 1996). Due to the limited literature on the examining the influence of foreign directorship on financial distress, the following hypothesis was drawn:

H2: There is a negative relationship between foreign directorship and financial distress.

Board expertise and financial distress

In the corporate governance literature, the composition of the board is a contentious issue that addresses critical concerns about BODs working in the best interests of shareholders. The board's composition has grown in importance in the aftermath of accounting scandals at Enron, HealthSouth, Tyco, and WorldCom in the 1990s and the 2007 financial crisis, which shook investors' trust. As a result, policymakers enacted new regulations requiring every corporation to have at least one financial expert on its board (Agrawal & Chadha, 2003). Prior work has indicated various proxies for measuring market expertise and identifies a person as a financially expert if he or she possesses a degree in the field of finance, accounting, or auditing (Khan et al., 2022; Minton et al., 2014; Sarwar et al., 2018; Jawad et al., 2021a). A chief finance officer, accounts officer, working as an executive in an investment or commercial bank, or is financial professionals are highly knowledgeable about the market, so they can distinguish between risks that are improbable or detrimental to the business's financial health and risks that are likely to be beneficial to the firm (Naheed et al., 2022). According to Francis et al. (2012), financial specialists assist companies in preventing losses during crisis periods by counselling managers and assisting firms in obtaining external resources for the firms (Francis et al., 2012).

According to the search results, it appeared that most of the papers explored the possible positive influence of board composition and competence on financial distress. Nonetheless, more studies may uncover unfavourable findings or limits in this field. It is crucial to remember that the search results presented here are not complete, and further investigation may reveal different findings. It is worth noting that the search results indicated the possible impact of banking directors during times of financial distress, as well as the requirement for bank loyalty in such circumstances. This might be one area where the impact board expertise has limitations or bad repercussions since their concentration may be on serving the interests of their bank rather than the firm. Therefore, the suggested hypothesis was as follows:

H3: There is a positive relationship between board expertise and financial distress.

Board size and financial distress

The size of the board is a significant element of corporate governance that has undergone thorough examination about its influence on financial crisis (Yousaf et al., 2020). The influence of board size on financial distress in South Korean businesses was investigated in research conducted by Kwon et al. (2020). The findings of the study indicated a statistically significant inverse correlation between the size of the board of directors and the occurrence of financial hardship. This implied that organisations with larger boards tend to have a reduced likelihood of experiencing financial crisis. In contrast, Luo et al. (2019) examined Chinese enterprises and revealed a lack of statistically significant correlation between board size and financial distress. The results of their study suggested that the size of the board of directors did not have a direct effect on financial distress. However, it was observed that other criteria, such as the level of board independence and the presence of a CEO holding multiple roles, might potentially influence this relationship. In addition, Garg et al. (2021) centered on Indian corporations and unveiled a curvilinear association between the size of the board of directors and the occurrence of financial distress. The research discovered that boards of both very small and very big sizes were linked to increased likelihoods of experiencing financial distress. Conversely, boards of middle sizes demonstrated reduced levels of financial distress.

According to the search results, it appeared that mixed results on relationships of the board size and the likelihood of financial distress. Therefore, the suggested hyphothesis was as follows:

H4: There is a positive relationship between board size and financial distress.

Board meeting and financial distress

According to Jan (2021) board meetings are of utmost importance in the realm of corporate governance, as they serve as a pivotal forum for directors to engage in discussions and render significant decisions pertaining to the company's strategic trajectory, risk mitigation, and financial achievements. Adebiyi (2021) investigated the correlation between board composition, financial reporting quality, and financial distress among Nigerian financial institutions. The research discovered a significant correlation between the occurrence of board meetings and the quality of financial reporting. This implied that frequent board meetings have a role in enhancing financial transparency and reducing the likelihood of financial distress. Akpan (2021) examined the influence of corporate board meetings on the financial performance and distress experienced within a Nigerian setting. The results of the study indicated that a higher frequency of board meetings was linked to enhanced financial performance and a decreased probability of experiencing financial distress. Firth et al. (2020) did a study to investigate the correlation between board meetings and financial difficulties in the United Kingdom. The results of the study revealed a positive correlation between the frequency of board meetings and the financial success of organisations, as well as a decreased probability of experiencing financial trouble. In contrast, Chen and Chen (2021) conducted a study on Taiwanese enterprises, which revealed a noteworthy inverse correlation between board meetings and financial distress. The research findings further emphasised the significance of board independence and experience in effectively managing financial crises.

Based on the results, it appeared that there are mix results on examining the relationship between frequency of board meeting and financial distress. Therefore, this study suggested the following hypothesis:

H5: There is a positive relationship between board meeting and financial distress.

Board independence and financial distress

Smith and Johnson (2018) revealed a positive correlation between the presence of independent boards inside organisations and their ability to effectively manage financial distress. These boards had a higher propensity to actively engage in risk management strategies and promptly make decisions to minimise financial risks. Chen et al. (2019) investigated the correlation between board independence and financial distress within the banking industry. The research revealed that financial institutions characterised by a higher degree of board independence had reduced levels of financial distress and shown greater resilience in the face of economic downturns. Other than that, the influence of board independence on financial distress in South Korean enterprises was investigated in Lee and Park (2020). The results indicated that organisations that possessed autonomous boards were more inclined to adopt efficient governance measures and make strategic choices in order to prevent or handle financial distress.

According to past studies, it has shown that most of the studies found that there was a positive relationship between board independence and financial distress. Therefore, this study suggested the following hypothesis:

H6: There is a positive relationship between board independence and financial distress.

METHODS

This study employed a sample of non-financial public listed companies listed on the Bursa Malaysia focusing on Main Market from 2020 to 2021. The selection of 2020 and 2021 was because the economic growth from 2019 to 2020 tended to be negative, but if everything played out as expected, the economic growth rate from 2020 to 2021 would be positive once more. The Bursa Malaysia Main Market comprised 756 companies and had a total market capitalization of RM1.67rillion, as of 31 July 2021 (Bloomberg Finance LP, 2021). According to Bloomberg Finance (2021), there were 13 sectors representing market capitalisation under Main Market of Bursa Malaysia. The highest percentage of market capitalisation was in the financial services sector which represented 21.4% while the lowest was the construction sector, representing1.83% of the total sectors under the Main Market.

This study focused on Bursa Malaysia's Main Market, as it boasts the largest number of listed companies and held the highest total market capitalization in 2021 (Bursa Malaysia, 2022). Data for research variables were gathered from Refinitive Eikons and companies' annual reports. Specifically, non-financial firms were considered, excluding banks and insurance companies due to their distinct regulations under the Financial Services Act, 2013. The study period spanned from 2020 to 2021, guided by data availability. The collected data consisted of 590 Annual Report samples. Therefore, out of the 756 Main Market listed companies, only 590 samples, comprising a total of 1,180 firm observations from diverse sectors, were used. Consequently, this study relied on secondary data to address research questions and evaluate its assumptions.

Table 3.1: Measurement of Independent Variables

Independent Variables (IV)	Measurement	References
Boards' Gender Diversity	The number of female directors in the board composition with a minimum of 30%.	(Mohd Suffian, 2021; Ud-Din et al., 2020)
Foreign	The number of foreign directors in the board.	(Mohd Suffian, 2021; Ud-Din et al., 2020)
Directorship	The number of directors in the board.	(Kalbuana Nawang 2022; Ud-Din et al., 2020)
Boards Size	The number of meetings held by the company.	(Alshaboul et al., 2020; Mohamed Shahwan, 2019)
Boards' Meeting	The number of independent directors in the board	
Boards' Independence		(Alshaboul et al., 2020; Yousaf et al., 2020)
Dependent Variables (DV)		
Altman Z Score	The total of the activity ratio, liquidity ratio, solvency ratio, leverage ratio and profitability ratio.	(Isa et al., 2013; Nustini and Mohd Suffian, 2021)

RESULTS AND DISCUSSION

Descriptive Results

The results as in Table 4.1 revealed that the lowest values for board gender diversity, board expertise, and foreign directorship were 0. Other than that, the minimum value for board size, boards' meeting and boards' independence was 4, 2, 1, respectively. The

Altman Z Score, used to gauge financial distress, had a minimum of -10.0056. Among control variables, firm size minimum was 2.1584. Similarly, both leverage and firm growth had a minimum of 0. This suggested that among the sampled companies, some lacked gender diversity, skilled, or foreign directors on their boards. Descriptive statistics indicated that the highest values were 8, 9, 24, 26, 10 and 10 for board diversity, expertise, size, meeting, independence, and foreign directorship, respectively. As for financial distress measurement, the highest value was 10.2721. In the realm of control variables, firm size topped at 8.9478, leverage at 24.4369, and market growth at .2328.

The mean for number of board gender diversity, board expertise, foreign directorship, board size, board meeting, and board independence after the descriptive test were 1.32, 2.36, .50, 7.60, 5.92 and 3.75 respectively. For the mean values of the financial distress measured using the Altman Z Score was 2.0040. For control variables, the mean values for firm size, leverage and firm growth were 5.8709, .2494 and .0010, respectively. It can be concluded that the average number of board gender diversity, board expertise, foreign directorship, board size, board meeting and board independence were 1, 2, 1, 8, 6 and 4, respectively.

Table 4.1: Descriptive Statistics

N=1180	Min	Max	Mean	Skewness	Kurtosis	Std. Dev.
Boards' gender diversity	0	8	1.32	1.135	0.986	1.135
Boards' expertise	0	9	2.36	0.877	1.418	1.185
Foreign directorship	0	8	0.5	2.967	1.0042	1.159
Boards' size	4	24	7.60	1.166	3.776	2.097
Boards' meeting	2	26	5.92	2.880	10.686	2.753
Boards' independence	1	10	3.75	1.299	2.702	1.266
Financial distress	-10.005	10.2721	2.004	-0.259	0.984	4.6061
SIZE	2.1584	8.9478	5.8709	0.786	1.98	0.7537
LEV	0	24.4369	0.2494	2.7713	8.7093	0.7624
GROW	0	0.2328	0.001	3.0484	9.9398	0.0071

Pearson Correlation

Pearson's correlation

As shown in Table 4.2, board gender diversity, foreign directorship, board size, and board independence were positively related to financial distress with a Pearson Coefficient Correlation of r = .81, r = .127, r = .107 and r = .026, respectively. However, board expertise and board meeting were negatively related to financial distress with a Pearson Coefficient Correlation of r = -.005 and r = -.113, respectively. Meanwhile, for the control variables, there was a negative correlation between leverage and firm growth with financial distress indicating that both control variables mentioned did not influence the financial distress of the company. Additionally, there was a positive relationship between firm size and financial distress with a Pearson Coefficient Correlation of r = .126.

For board gender diversity, the result showed that there was positive relationship between board expertise, foreign directorship, board size, board meeting and board independence with board gender diversity with a Pearson Coefficient Correlation of r = .302, r = .096, r = .428. r = .240 and r = 3.74, respectively. However, for the control variables, there were mixed results where firm size and leverage showed a positive relationship with board gender diversity, while firm growth did not influence the board gender diversity as it showed negative relationship between both variables with a with a Pearson Coefficient Correlation of r = .373, r = .021 and r = -.016, accordingly.

Next, there was a positive relationship between foreign directorship, board size, board meeting, board independence, firm size, and firm growth with board expertise with a Pearson Coefficient Correlation of r = .066, r = .378, r = .202, r = 2.95, r = .182 and r = .016, respectively. It showed that all six mentioned variables were significant contributors to board expertise. Adversely, leverage did not influence board expertise as the result showed a negative relationship with a Pearson Coefficient Correlation of r = -.006. Moving on to the next variable, which was foreign directorship, the results showed that there was a positive relationship between board size, board meeting, board independence, firm size and firm growth with the foreign directorship with a Pearson Coefficient Correlation of r = .215, r = 0.51, r = .086, r = .194 and r = .012, respectively. However, there was a negative relationship between leverage and foreign directorship with a Pearson Coefficient Correlation of r = -.029 indicating the mentioned control variables did not influence the foreign directorship in a company.

Table 4.2: Pearson Correlation

	Financial distress	Boards' gender diversity	Boards' expertise	Foreign directorship	Boards' size	Boards' meeting	Boards' independence	SIZE	LEV	GROW
Financial distress	1									
Boards' gender diversity	.81**	1								
Boards' expertise	-.005	.302**	1							
Foreign directorship	.127**	.096**	.066*	1						
Boards' size	.107**	.428**	.378**	.215**	1					
Boards' meeting	-.113**	.240**	.202**	0.51	.220**	1				
Boards' independence	.026	.374**	.295**	.086**	.668**	.370**	1			
SIZE	.126**	.373**	.182**	.194**	.387**	.400**	.408**	1		
LEV	-.134**	.021	-.006	-.029	-0.004	0.27	.005	-.063*	1	
GROW	-.054*	-.016	.016	.012	0.45	0.066*	0.24	-.176**	.093**	1

Note: **Correlation is significant at the 0.01 level (1-tailed); and *Correlation is significant at the 0.05 level (1-tailed).

Regression Analysis

Regression analyses examine the connection between independent and dependent variables. The independent variables were corporate governance practices, represented by board expertise, gender diversity, and foreign directorship. Financial distress, measured using the Altman Z Score, was the dependent variable. Furthermore, control variables included company size, leverage, and firm growth. The regression equations used in this study were as follows:

$$FD = \alpha 0 + \beta 1GENDER + \beta 2EXPERTISE + \beta 3DIRECTORSHIP + \beta 4BSIZE + \beta 5MEETING + \beta 6INDEPENDENCE + \beta 7FSIZE + \beta 8LEV + \beta 9GROWTH + \varepsilon it \quad (1)$$

Where,

FD	Financial distress of the company measured by the Altman Z Score
DIVERSITY	Number of femalesin board composition
EXPERTISE	Number of experts in board composition
DIRECTORSHIP	Number foreign directors in board composition
BSIZE	Number of directors in board composition
MEETING	Number board meetings held by company
INDEPENDENCE	Number independent directors in board composition
FSIZE*i,t*	Company size measured by the natural logarithm of total assets for company *i* in year *t*
LEVi,t	Leverage measured by total debt divided by total assets for the company *i* in year *t*
GROWTH*i,t*	Market value of a company at the end of the year divided by the book value of the total assets for company *i* in year *t*
εi,t	Error term

The results as shown in Table 4.3 indicated that gender diversity on boards had a significant positive impact on financial distress at a 10% level (t-value = .232). This implied that a higher level of gender diversity on boards was associated with a positive influence on financial distress. The positive sign suggested that, on average, companies with more gender diversity experienced lower levels of financial distress. However, there was a non-significant negative relationship between board expertise and financial distress at the 10% level (t-value = 1.462). While the relationship was negative, the lack of significance suggested that there iwas insufficient evidence to conclude that board expertise had a clear impact on financial distress. The negative sign implied that higher board expertise was associated with lower financial distress, but this relationship was not statistically significant.

Additionally, there was a significant positive link between foreign directorship and financial distress at the 5% level (t-value = 3.618). The positive sign indicated that companies with a higher proportion of foreign directors were associated with increased financial distress. This could be influenced by various factors related to international operations or global economic conditions. Moving to the next independent variables, the findings showed that there was a significant positive relationship between board size and financial distress at the 1% level (t-value = .200). The positive sign suggested that larger boards were associated with higher financial distress. This finding may prompt further investigation into the dynamics and decision-making processes within larger boards. In contrast, there was a non-significant negative relationship between board meeting and board independence with financial distress (t-value = <.0.01, t-value = -.310), respectively. The lack of significance suggested that the frequency of board meetings and the level of independence did not have a clear impact on financial distress based on the data.

The analysis of the control variables provided mixed outcomes. For firm size, therewas a significant positive relationship with financial distress at the 5% level (t-value = 2.463). However, regarding the other control variables—leverage and market growth—the findings indicated a significant negative connection between leverage and financial distress at the 1% level (t-value = -4.343). Similarly, a negative relationship between market growth and financial distress was observed at the 10% level (t-value = -.955). These results suggested that larger firms tended to experience higher financial distress, while higher leverage and market growth were associated with lower financial distress. These findings were consistent with past studies (Nustini & Mohd Suffian, 2021; Isa et al., 2013). However, a study by Suffian et al. (2022) has found that the higher the leverage, the better the performance of the company.

The adjusted R-squared for this study was low, standing at 0.079. This suggested that only 7.9% of financial distress was explained by the studied variables. The bulk, 92.1%, was accounted for by other unexamined factors contributing to financial distress. This indicated that the predicting factors in this study were not well-suited to explaining a significant portion of the outcome's variation, as shown by the F-statistic value of 10.993.

Table 4.3: Multiple Regression

	Financial Distress
Constant	-.735 **(-.662)***
Boards' gender diversity	.232 **(1.783)***
Boards' expertise	-.172 **(1.462)***
Foreign directorship	.421 **(3.618)*****
Boards' size	.200 **(.028)**
Boards' meeting	-.301 **(.001)**

Boards' independence	-.150 **(.310)**
SIZE	.483 **(2.463)****
LEV	-.757 **(-4.343)*****
GROW	-18.238 **(-.955)***
R Square	.079
Adjusted R^2	.072
F Statistic	10.993
N	1180

Note: *Significant at the 10% level (1-tailed); **Significant at the 5% level (1-tailed); ***Significant at the 1% level (1-tailed).

CONCLUSION

This study aimed to assess the impact of corporate governance mechanisms, including board expertise, foreign directorship, and gender diversity, on financial distress using the Altman Z Score. The research focussed on the period surrounding the COVID-19 outbreak, investigating how businesses can employ corporate governance to navigate financial challenges, especially during crises like the pandemic. This approach enhances operational effectiveness, reduces transaction costs, and addresses production and liquidity concerns within a company's internal structure. The study examined Bursa Malaysia-listed companies, excluding financial institutions, from 2020 to 2021, revealing insights into the relationship between these governance variables and financial distress.

These insights underscore the significance of corporate governance principles for board diversification, audit committees, investors, and other stakeholders in Malaysia. The pandemic highlights the importance of responsibility, openness, and integrity, emphasizing the value of ethical practices in governance. Strategically, these insights enable better decision-making for the management and help prevent financial distress, showcasing the direct connection between governance and organizational outcomes. Poor governance has been linked to performance failures, while effective governance ensures efficient communication, information access, and timely prioritization of actions, bolstering sustainability and resilience during economic challenges.

However, limitations are present. The impact of corporate governance and government responses during pandemics can vary among nations, affecting outcomes. The focus of the study on specific governance aspects highlights the need for more characteristics and alternative financial distress indicators for a comprehensive perspective. Furthermore, the study was confined to publicly traded Malaysian companies over a two-year period (2020–2021). While the study demonstrated the effectiveness of strong corporate governance in managing financial distress, there is room for further research to address gaps. Comparative studies spanning different countries and broader contexts could provide deeper insights. Expanding the analysis to Southeast Asian countries beyond Malaysia could yield more supporting evidence. Longer studies could better understand the connection between explanatory factors. Future research might explore the interplay of COVID-19 and country-level factors on corporate governance and outcomes. Including diverse mechanisms and ownership structures would enrich findings. Lastly, extending the study to Malaysian small and medium enterprises (SMEs) could offer valuable insights into tackling pandemic-related financial distress in this sector.

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