

UNIVERSITI TEKNOLOGI MARA

**THE INFLUENCE OF BOARD
CHARACTERISTICS ON
FINANCIALLY DISTRESSED
COMPANIES LISTED IN
MAIN MARKET BURSA MALAYSIA**

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ABSTRACT

Companies may fall into financial distress due to a poor corporate governance such as poor management, lack of directors' independence, poor leadership structure and incompetent directors. However, companies with good board characteristics may avoid the companies to fall into this financial distress situation. Prior studies had given mixed results on the board characteristics influence on financially distress companies. Thus, this study examined the influence of board characteristics on financially distressed companies listed in the Main Market of Bursa Malaysia. Board characteristics used in this study comprised of board independence, CEO Duality and Audit Committee members' financial and industry expertise. The total sample data of 46 financial distress and 46 non-financially distress companies were collected from year 2013 until 2016 from Bursa Malaysia website. All data are taken to examine the influence of board characteristics with financial distress companies listed in Main Market of Bursa Malaysia. Binary logistic regression was used to test the relationship between each of board characteristics with financially distressed companies. The result of this study found that CEO Duality and Audit Committee members' financial and industry expertise had negatively significant with financial distress companies. Meanwhile, board independence is not significant with financial distress companies. This study also found that board characteristics do have significant relationship with financially distressed companies listed in the Main Market of Bursa Malaysia. In addition, the findings of this study will contribute to the limited research regarding the influence of board characteristics on financially distressed listed companies, specifically in the context of Malaysia. Besides that, this study would also be useful for listed issuer and investors, in ensuring the companies have a sound governance through the good board characteristics. So that companies will not fall into financial distress situation.

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CHAPTER ONE

INTRODUCTION

1.1 Preamble

In this chapter, researcher provided an overview of this study which entitled “The Influence of Board Characteristics on The Financial Distress of Listed Companies in Malaysia”. Chapter 1 of this study comprised of seven sections which explained in overall regarding this study. Firstly, researcher begins this chapter with the background of study which explains on how the characteristic of board of directors influenced have an influence on financially distressed companies listed in the Main Market Bursa Malaysia. Secondly, is the problem statement where the researcher explained the recent issue arise that become the starting point of this research. Meanwhile, research objectives and research questions will be the third and fourth sections respectively. Next, the fifth section is the scope of study, which explains the main focuses of this study. The sixth section will be the significance of study that will provide the impacts of this study in overall. Lastly, is the definition of terms and concepts that explained in detail in the seventh section of this dissertation.

1.2 Background of Study

A corporation is an artificial person that required individuals to act on its behalf. Due to that, the managing task of companies been given to a group of directors, been known as board of directors in collectively (Jan & Sangmi, 2016). They are responsible in managing the company, specifically in formulating the strategic decisions of the company. Board of directors is the main key player of every company neither private nor public company. In general, every decision made by the board of directors must for the best interest of company and shareholders. However, board of directors’ duties become complex recently when their duties had shifted from the main fiduciary duty towards the company to more complex duties such as financial, sustainability, and risk management (Andres & Vallelado, 2008). Besides that, board of directors also represent the image of