UNIVERSITI TEKNOLOGI MARA

THE DETERMINANT OF FINANCIAL DISTRESS AMONG PUBLIC LISTED COMPANY IN MALAYSIA.

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ABSTRACT

The goal of this research is to look into the factors that contribute to financial distress among Malaysian publicly listed firms between 2015 and 2021. Several factors can cause a company to fail, and financial distress determinants are important to the company, bankers, investors, asset managers, and rating agencies. Early warning signs of financial distress can assist the manager in taking preventive measures to save the company from going bankrupt. Any economic agent with an interest in the company, such as shareholders, managers, employees, bankers, and customers, will be impacted by the company's failure. The sample includes 154 observations extracted from Bursa Malaysia, as of 2021. In this research, the financial performance is measured by its dependent variable which is Altman Z-Score and its independent variable which are Return On Assets (ROA), Debt Ratio (DR) and Quick Ratio (QR). This study's main goal is to identify financial difficulty among public listed companies on Bursa Malaysia by using the Altman Z-Score Model as a stand-in for financial distress. From 2015 to 2021, panel data from 22 firms listed on Bursa Malaysia was collected. As potential predictors of financial distress, this study used the Financial Statement from certain factors that are not included in the Altman Z-Score model. This study adds to the body of literature by presenting data from the viewpoint of developing nations.

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INTRODUCTION

1.1 BACKGROUND OF STUDY

The aim of the research is to see if financial distress can be predicted by looking at financial ratios. Financial distress is described as a situation in which a company's financial commitments are not satisfied or are met with difficulty. According to Chan & Chen (1991), Financially distressed organizations are those that have poor performance, inefficient producers, and are also likely to have excessive financial debt and cash flow problems, resulting in a loss of market value. They are marginal in the sense that their prices are more susceptible to economic fluctuations and are less likely to survive a downturn. As a result, investors demand a premium for owning riskier equities and expect to be compensated for taking on the risk. Typically, the chance of failure is used to assess financial distress of this sort (Shumway, 2001).

The Malaysian economy has been rocked by crises in the past, but this one is unlike any that the country has faced in the last decade. Because the current crisis was caused by external factors, it necessitates a thorough rethinking of the country's growth plan. For example, the 1997 crisis necessitated both temporary measures (such as capital controls) and fundamental changes (such as banking and financial system restructuring), but the current crisis will necessitate new ways of thinking about how Malaysia should reposition itself, as the crisis challenges the country's growth strategy assumptions.

If the current crisis results in sustained declines in consumer demand from the United States (US), the European Union (EU), and Japan (as appears to be the case), Malaysia's export-led economy will be slowed. Because Malaysia's economy cannot rely solely on domestic demand to expand, it is necessary to revisit previously overlooked sectors of the economy and rebalance growth in accordance with national strategies that prioritise domestic consumption and investment while ignoring export and export-related activities. How can domestic investment and consumption be improved? This is one of the most important questions that has to be addressed. Rising incomes, while necessary, are insufficient to stimulate investment and consumption because increased incomes may only lead to increased savings if uncertainty persists.