



AN EMPIRICAL STUDY ON THE EMERGING MARKET SCORE (EMS): PREDICTING FINANCIAL DISTRESS OF MANUFACTURING COMPANIES IN MALAYSIA

NOR AZRINA BINTI RAFI
2013866114

BACHELOR OF BUSINESS ADMINISTRATIONS
WITH HONOURS (FINANCE)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
SABAH

JUNE 2016

ACKNOWLEDGEMENTS

I am grateful to the God for the good health and well-being that were necessary to complete this thesis.

I am also grateful to Dr Rozita @ Uji Mohammed, lecturer and supervisor in the Department of finance. I am extremely thankful and indebted to her for sharing expertise, and sincere and valuable guidance and encouragement extended to me.

I wish to express my sincere thanks to Dr Prof Madya Imbarine Bujang, Principal of the Faculty for providing me with all the necessary facilities for the research.

I take this opportunity to express gratitude to all of the Department faculty members for their help and support. I also thank my parents for the unceasing encouragement, support and attention. I am also grateful to my partner who supported me through this venture.

TABLE OF CONTENTS

| | |
|---|-------|
| Declaration of original work | 3 |
| Letter of submission | 4 |
| Acknowledgements | 5 |
| Table of contents | 6-7 |
| List of table and figures | 8 |
| List of abbreviations | 9 |
| Abstract | 10 |
| Chapter 1 | |
| 1.1 Background of study | 11-12 |
| 1.2 Problem Statement | 12-13 |
| 1.3 Terms Definition | 13 |
| 1.4 Malaysia GDP | 14 |
| 1.5 Research Objective | 15 |
| 1.6 Hypothesis | 15-16 |
| 1.7 Significant of Study | 16 |
| 1.8 Scope and Limitation | |
| 1.8.1 scope | 17 |
| 1.8.2 limitation | 17 |
| 1.9 Organization of Study | 18-19 |
| Chapter 2 | |
| 2.1 Introductions | 20 |
| 2.2 Theoretical Background | 21-23 |
| 2.3 Study by Previous Researcher | 24-27 |
| 2.4 The Usefulness of Business Failure Prediction | 28 |
| 2.5 Summary of Chapter | 29 |
| Chapter 3 | |
| 3.1 Introduction | 30 |
| 3.2 Data collection | 30 |
| 3.2.1 Sample Selection | 31-32 |
| 3.3 Empirical Model | 33-34 |

| | |
|--|-------|
| 3.4 Measurement of Variable | 35 |
| 3.5 Estimation Procedure | 36-37 |
| 3.6 Summary of Chapter | 37 |
| Chapter 4 | |
| 4.1 Introductions | 38 |
| 4.2 Emerging Market Score | |
| 4.2.1 Descriptive Statistics | 38-39 |
| 4.2.2 Details EMS model for each firms | 40-44 |
| 4.2.3 Result of EMS model | 45 |
| 4.3 Relationship of EMS model and Independent Variables | |
| 4.3.1 Unit root Test | 46-47 |
| 4.3.2 BPLM Test | 47 |
| 4.3.3 Hausman Test | 47 |
| 4.3.4 Fixed Effect Regression | 48-49 |
| 4.3.5 VIF Test | 50 |
| 4.3.6 Heteroscedasticity Test | 50 |
| Chapter 5 | |
| 5.1 Conclusions | 51 |
| 5.2 Recommendations | 52 |
| Chapter 6 | |
| References List | 53-57 |
| Chapter 7 | |
| Appendix | 58-62 |

ABSTRACT

Businesses are enterprises which produce goods or render services for profit motive. To be able to predict the financial soundness of a business has led to many research works. Financial ratios are a key indicator of financial soundness of a business. Financial ratios are a tool to determine the operational and financial efficiency of business undertakings. There exist a large number of ratios propounded by various authors. With the help of EMS Z-model score, Altman could predict financial distress up to 5 years in advance. The following research paper used 30 manufactured companies listed under Bursa Malaysia which consist of 15 heavy and 15 light companies. The periods are for 5 years from 2010-2014 in normal economic circumstances. STATA 12 was used to identify the relationship between EMS model and the independent variables which are WC/TA, RE/TA, EBIT/TA and BVE/TL. The findings show that WC/TA and RE/TA had significant relationship towards EMS model and it is one of the factors that affect the distress.

Keywords: Financial distress, EMS model, Financial Ratios.