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**THE EFFECTS OF BOARD SIZE, OWNERSHIP AND DIVERSIFICATION ON
FINANCIAL DISTRESS FIRMS**

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**UNIVERSITI UTARA MALAYSIA
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**THE EFFECTS OF BOARD SIZE, OWNERSHIP AND DIVERSIFICATION ON
FINANCIAL DISTRESS FIRMS**

**Submitted in Fulfillment of the Requirement for the
Degree of Master of Business Administration
(General Management)**

By

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**COLLEGE OF BUSINESS (COB)
UNIVERSITI UTARA MALAYSIA
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ABSTRACT

This study investigates the potential failures of Malaysian firms and this study is built upon the existing literatures on corporate governance and bankruptcy prediction. Based on the previous literature conceptualized by financial leverage, ownership structure, board size and corporate diversification is hypothesized to have an impact on the probability of financial distress. This study only focuses on corporate financial distress due to the failures in structuring corporate governance. The study will be developed to measure how the performance of the companies related to the financial distress.

The finding indicates that beside financial characteristic, corporate governance relevant to corporate failures. The probability of financial distress, corporate governance, and financial characteristic are associated. According to the analysis, which based on the logistic regressions, it indicates that the financial leverage (total debt to total assets) and board size influenced significantly to the distressed firms. The other two variables which are ownership structure and corporate diversification did not influence significantly to the distressed firms.

ABSTRAK

Pengajian ini mengkaji potensi kegagalan syarikat di Malaysia dan penelitian ini dibina di atas kesusasteraan yang ada pada tata urus syarikat dan ramalan muflis. Berdasarkan literatur dahulu yang dikonsep oleh pengaruh kewangan, struktur pemilikan, saiz lembaga pengarah dan kepelbagaian syarikat adalah dihipotesiskan mempunyai pengaruh terhadap kemungkinan kesulitan kewangan. Kajian ini hanya tertumpu pada kesulitan kewangan syarikat kerana kegagalan dalam struktur tata urus syarikat. Penelitian ini akan dibangunkan untuk mengukur bagaimana prestasi syarikat berkaitan dengan kesulitan kewangan.

Penemuan ini menunjukkan bahawa ciri-ciri kewangan di samping, tata urus syarikat yang relevan dengan kegagalan syarikat. Kemungkinan kesulitan kewangan, tata urus syarikat, dan karakteristik kewangan adalah berkaitan. Menurut analisis, yang didasarkan pada regresi logistik, hal ini menunjukkan bahawa pengaruh kewangan (jumlah hutang kepada jumlah aset) dan saiz lembaga pengarah dipengaruhi signifikan terhadap kegagalan syarikat. Dua pembolehubah yang lain iaitu struktur kepemilikan dan kepelbagaian syarikat tidak berpengaruh signifikan terhadap kegagalan syarikat.

CHAPTER 1

INTRODUCTION

The issue of corporate governance has become more prominent as a result of many large-scale of corporate collapses around the world. This event has made people wondering how big and strong companies could simply disappear and announced as bankrupt.

There are many definitions given by a lot of people as well as organizations about corporate governance. The World Bank refers to corporate governance as the structures and processes for the direction and control of companies which might concern a lot to the relationships among the management, Board of Directors, controlling shareholders, minority shareholders and other stakeholders. Another interpretation is that, corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a corporation or a company is directed, administered or controlled where it includes the relationships among the many stakeholders involved and the goals for which the corporation is governed.

Due to that, by having good corporate governance, it can contribute to the sustainable economic development by enhancing the performance of companies and increasing their access to the outside capital. Then, it can lead to a significant increased in economic value added (EVA) of firms, higher productivity, and lower risk of systemic financial failures for countries.

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