

Product Market Competition and Corporate Financial Distress: Malaysian Evidence

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ABSTRACT

This study aims to examine the relationship between product market competition and corporate financial distress. The incorporation of external determinants such as product market competition into a distress predictive model can improve its explanatory power and add to existing evidence that has mainly centered on internal determinants. Product market competition is measured by Herfindahl-Hirschman Index to present an actual competitive position of the companies in their market. The Zscore model is used to measure the corporate financial distress. Analysis involving 6,450 firm-year observations from Malaysia for the period 2010 to 2019 show that companies with higher product market competition have lower corporate financial distress. Companies in higher competition engage more in strategies for survival and are able to perform well in the aspect of stronger financial health. The findings are robust in additional analysis that employ alternative measures for product market competition and corporate financial distress. Overall, this study provides empirical evidence that may assist the shareholders in understanding financial distress as a crucial indicator to measure financial health of companies, and product market competition as an external governance that has significant roles in influencing corporate performance. This finding has implications in terms of allowing competition to be a factor that promote corporate financial health, against the strategy for monopolized industry in some national economic policy.

Keywords: Product market competition, Corporate financial distress, Malaysia

