Corporate Governance and Firms in Financial Distress: Evidence from a Middle Eastern Country

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Abstract: The objective of this paper is to determine the managerial governance characteristics related to financially distressed companies. The failure of boards to accomplish their monitoring duties seemed to be one of the main reasons behind the financial distress and bankruptcy that has swept across companies in the world. Through the analysis of a sample of 178 Lebanese non-listed and family owned firms, the results show that boards which have a higher proportion of outside directors are less inclined to face financial distress than the boards with a lower proportion. In addition, a different conclusion proves that the board's size and financial distress are directly linked. This paper highlights the extent to which financial distress is associated with corporate governance from a Euro-Mediterranean country; it would be a source of education to Lebanese investors, who excessively go for short-term returns, and of help to regulatory authorities within the framework of making policies on corporate governance reformation.

Keywords: corporate governance; financial distress; performance; board of directors; bankruptcy; Lebanon; board size; board monitoring; short-term returns.

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