

ABSTRACT

The purpose of this study was to predict financial distress in Kenyan listed firms. The specific objectives were to determine the contribution of financial ratios towards the prediction of corporate financial distress, to evaluate the predictive ability of the logistic regression model in making accurate forecasts of financial distress, to determine the predictive accuracy of the model in predicting financial distress before and during financial crisis, and also to compare the predictive accuracy of the model in predicting financial distress over the two periods, that is, before financial crisis (2004- 2006) and during financial crisis (2007- 2009). The study adopted a correlational research design. The target population included all the firms listed at the Nairobi Securities Exchange as at 2008 which were 66 firms. Secondary data were used in this study and were obtained from the Capital Markets Authority. Purposeful sampling was employed. Both descriptive statistics such mean, mode, median and standard deviation. Also inferential statistics such as correlation to determine the association between financial ratios and financial distress. Regression analysis were performed to test the hypotheses. The results indicated that an increase in the ratio of working capital to total assets, EBIT to total assets, current liabilities to total assets, and retained earnings to total assets of the surveyed firms was likely to increase the financial distress of the surveyed firms. However, the ratio of debt to total assets was found to be marginally related to financial distress. It was concluded that the earnings before interest and tax to total assets ratio significantly affected financial distress; having large amounts of retained earnings could possibly increase financial distress; and that financial ratios played a crucial role in determination of financial distress among listed firms. The study recommended that the listed firms should maintain high liquidity, be appropriately leveraged and have a positive trajectory of profitability in order to effectively mitigate financial distress.

Keywords

Financial distress -- Financial crisis