UNDERSTANDING FINANCIAL DISTRESS AMONG LISTED FIRMS IN NAIROBI STOCK EXCHANGE: A QUANTITATIVE APPROACH USING THE Z-SCORE MULTI-DISCRIMINANT FINANCIAL ANALYSIS MODEL

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Abstract:

The paper assesses the financial distress among listed firms in Nairobi Stock Exchange in Kenya. The Capital Market Authority (CMA) has a regulatory responsibility to keep surveillance of firms listed in Nairobi Stock Exchange (NSE) with regards to capital, liquidity and other aspects with overall aim of ensuring financial stability of these firms. The expectation is therefore that the firms will be financially prudent and healthy which in turn will attract investors. The recent crisis where a number of NSE listed companies' including stock brokers experienced financial distress is an indication that there is a missing link between surveillance and the management of these firms. If this is not rectified the public can loose interest in investing in Nairobi Stock Exchange. There is therefore a need to critically assess the financial position of the listed firms and suggest ways of improving the performance of NSE. This study utilizes the Z'-score multidiscriminant financial analysis model which provides the framework for gauging the financial performance of the firms. This is in addition to the use

of the ANOVA and correlation tests in support of the evidences from the Z-score model. The sample constituted selected firms listed in Nairobi Stock Exchange divided into five different sectors. The results clearly indicated that the financial health of the listed companies needed to be improved. In addition a disjoint was noted in the correlation between what is expected of the listed companies in terms of financial performance and the benefits to be accrued from CMA surveillance on them. On the analysis of the financial statements of the listed firms it was postulated that the financial distress experienced by the firms are emanating from functioning of these firms. On the other hand, the Capital Market and NSE role responsibility needs to be strengthened. The study recommended that the NSE should make financial stability an integral driver of its policy framework.

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