Predicting Financial Distress in South Africa

Authors : Nikki Berrange, Gizelle Willows

Abstract : Business rescue has become increasingly popular since its inclusion in the Companies Act of South Africa in May 2011. The Alternate Exchange (AltX) of the Johannesburg Stock Exchange has experienced a marked increase in the number of companies entering business rescue. This study sampled twenty companies listed on the AltX to determine whether Altman's Z-score model for emerging markets (ZEM) or Taffler's Z-score model is a more accurate model in predicting financial distress for small to medium size companies in South Africa. The study was performed over three different time horizons; one, two and three years prior to the event of financial distress, in order to determine how many companies each model predicted would be unlikely to succeed as well as the predictive ability and accuracy of the respective models. The study found that Taffler's Z-score model had a greater ability at predicting financial distress from all three-time horizons.