AN EMPIRICAL STUDY ON THE EMERGING MARKET SCORE (EMS): PREDICTING FINANCIAL DISTRESS OF MANUFACTURING COMPANIES IN MALAYSIA

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ABSTRACT

Businesses are enterprises which produce goods or render services for profit motive. To be able to predict the financial soundness of a business has led to many research works. Financial ratios are a key indicator of financial soundness of a business. Financial ratios are a tool to determine the operational and financial efficiency of business undertakings. There exist a large number of ratios propounded by various authors. With the help of EMS Z-model score, Altman could predict financial distress up to 5 years in advance. The following research paper used 30 manufactured companies listed under Bursa Malaysia which consist of 15 heavy and 15 light companies. The periods are for 5 years from 2010-2014 in normal economic circumstances. STATA 12 was used to identify the relationship between EMS model and the independent variables which are WC/TA, RE/TA, EBIT/TA and BVE/TL. The findings show that WC/TA and RE/TA had significant relationship towards EMS model and it is one of the factors that affect the distress.

Keywords: Financial distress, EMS model, Financial Ratios.