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Impact of Financial Distress on Firms' Performance: Evidence from CSE Food Beverage & Tobacco Industry and Consumer Durable & Apparel Industry

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Abstract

Introduction - Financial distress arises when a corporation cannot meet payment obligations or when cash flow projections indicate that the company will soon be unable to meet its obligations. The Sri Lankan food, beverage, and apparel sectors play significant roles and contribute immensely to the country's GDP. This research aims to determine the significant effect of financial distress on companies listed in the consumer goods industry, food and beverages sector, and apparel sector in Sri Lanka.

Methodology - Data was gathered from annual reports of 20 listed firms of two sectors on CSE from 2012 to 2021. Return on assets was used as the dependent variable, and Altman's Z-score was used as an independent variable to measure financial distress. Liquidity, leverage and net profit margin were used as the control variables. Data were analysed using SPSS, which included statistical tests such as descriptive statistics, multicollinearity, reliability and normality. Also, multiple regression results were used to test hypotheses.

Findings - The study revealed that financial distress significantly affects the financial performance of firms in the apparel sector more than in the food and beverage sector.

Conclusion - Finally, the researcher suggests that stakeholders, including regulatory authorities and researchers, are encouraged by the study to be more attentive to the operations of the apparel sector and the food and beverage sector to improve financial performance in the future.

Keywords: Financial distress, Financial Performance, Food & Beverage, Apparel sector