Business & Social Science
IJRBS

Research in Business & Social Science

IJRBS VOL 10 NO 6 ISSN: 2147-4478

Available online at www.ssbfn.net
Journal homepage: <https://www.ssbfn.net/ojs/index.php/ijrbs>

Leadership and organizational distress: Review of literature

Eltigani Mohamed Ali Ahmed

School of Leadership, Business & Technology, Pan Africa Christian University, Nairobi, Kenya

ARTICLE INFO

Article history:

Received 22 August 2021

Received in rev. form 21 Sep. 2021

Accepted 23 Sept 2021

Keywords:

Financial Distress, Organizational
Ecosystem, Organizational leadership

JEL Classification:

O15

ABSTRACT

The financial system in any country plays a critical role in facilitating payment and providing policy and performance anchors to the economy. Therefore, systemic financial distress manifests in industry-level financial distress by front-hitting the financial system first. Financial organizations' failure triggers a domino effect on the whole ecosystem, and therefore financial institutions enjoy various layers of protection when their operations show signs of distress. Several financial industry players worldwide have experienced financial distress in one form or another during episodes of systemic crisis such as the 2008 international financial crisis. Although the distress might not have necessarily led to bankruptcy or liquidation in some cases, it left several questions unanswered, particularly with respect to a leadership role, ecosystem contingencies, and the recovery mechanism. This study scanned recent extant literature on organizational financial distress and identified essential gaps for future research. The study provided a holistic review of antecedents, outcomes, and intra-industry characteristics of financial distress. The study found that the leadership role as an orchestrative agent in an organizational ecosystem has not been adequately addressed in the extant literature. The study contributes to the literature by clarifying leadership aspects of systemic financial distress by placing leadership within the core of the financial ecosystem before, during, and after distress. Outcomes and recommendations for future research are proposed.

© 2021 by the authors. Licensee SSBFNET, Istanbul, Turkey. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).

Introduction

The organizational distress literature identifies various levels of distress with different accompanying and circumstantial precursors, antecedents, indicators, circumstantial occurrences, and tracers (Senbet & Wang, 2012). Similarly, it has generally been perceived that two distinct factors influence organizational failure: exogenous and endogenous factors (Mellahi & Wilkinson, 2004). The exogenous factors include organizational ecology, while endogenous factors are represented by managerial competence and internal organizational psychology (Becker, 2007). The compelling reciprocative argument that seems to have largely been ignored is the drivers of organizational recovery. It seems that recovery has primarily been analyzed as a by-product of failure and not as a distinct policy argument. Accordingly, an argument that organizational recovery can be achieved by manipulating either the exogenous or endogenous variables is worth exploring further to critically assess the operational dynamics that contribute to the buildup of the recovery process. The operational factors and orchestration of the contingent stakeholder interests are purely a domain of organizational leadership. Intuitively, policy recommendation accompanying the recovery process generally adopts exogenous factors to achieve recovery (Platt, 2017). This approach seems to embody an inherent counter-intuitiveness since endogenous factors are perceived as internal within a distress scenario.

In nearly all the cases of organizational distress and recovery, the debate conspicuously centered around micro approach to the distress, and the remedial policies dealt with what the research concluded as the fundamental causes of the distress (Ahrend, 2010; Fawley & Neely, 2013; Schweizer & Nienhaus, 2017; Senbet & Wang, 2012). The management role of the organizational leadership is critical, yet seems to have conveniently been overlooked in the historic instances of organizational distress probably because organizational stress induces stakeholder perception that leadership incompetence is one of the causes of organizational distress and

* Corresponding author. ORCID ID: 0000-0001-6983-1580

a typical easy policy recommendation in such cases would be leadership retrenchment (Schweizer & Nienhaus, 2017). Therefore, the question of management competencies of the leadership seems to have been ignored for this reason.

Historically, several scholars have looked at organizational financial distress from various angles, mainly within the financial or operational manifestation of organizational financial distress. Interestingly, the body of literature on organizational financial distress follows a discriminant approach in analyzing the causes of organizational financial distress by adopting the contemporaneous variables in isolation of the other factors often perceived as remote to the distress (Ellis, 2019; McNamara, Duncan, & Kelly, 2011; Tirapat & Nittayagasetwat, 1999). This research attempts to look into an organizational financial distress model that incorporates the role of leadership.

This study has been motivated by the lack of a holistic approach within the theoretical and empirical literature that deals with organizational financial distress as a potential outcome of a combination of factors. Since the advent of the international financial crisis, most studies tended to conduct isolative studies by concentrating on specific variables perceived to impact organizational financial distress profile. The absence of all-encompassing research that assesses the whole organizational ecosystem has been highlighted by several scholars (Koech, Nyang'aya, & Mugo, 2018; Lasfer, 2010; Pomerance, 2009; Samaraweera, 2018; Senbet, 2010). This applies globally as well as within the context of the developing and emerging markets.

Review of Theoretical Literature

Genesis of Organizational Financial Distress

Several scholars have looked at organizational financial distress from various angles, mainly within the financial or operational manifestation of organizational financial distress. For instance, Baldwin and Mason (1983) considered an organization financially distressed when it can no longer meet its commercial and financial obligations falling due promptly. This happens when an organization ceases to comply with its borrowing or operational covenants. Beaver (1966) extended Baldwin and Mason's definition by incorporating bankruptcy, issuance default, overutilization of available credit facilities, and failure to make dividend payout for preferred stock, not common stock. Lau (1987), as cited in Siddiqui (2012), conceptualized organizational financial distress within a dynamic lifecycle approach where distress is viewed as a stage-based process that happens over time. According to Lau, distress begins from time $t+0$ and extends to time $t+4$ in the following sequence: $t+0$ manifests in a general financial disturbance; $t+1$ manifests in percentage reduction on dividend payout on a year-on-year basis; $t+2$ represents technical default on lay servicing timelines; $t+3$ happens when an organization seeks bankruptcy protection, and $t+4$ occurs when an organization is bankrupt or insolvent. Muller, Steyn-Bruwer, and Hamman (2009) present a modified variation to Lau's model as they theorize for the organizational financial distress in terms of stage-based development with four distinct phases: deterioration, failure, insolvency, and default. The new insight in their approach is that they conceptualize each stage in its final impact on performance. They argue that deterioration and failure impact an organization's bottom-line, while insolvency and default disturb liquidity. Fundamentally, it can be argued that liquidity and bottom-line each have different sets of implications for the organization's market position, and each set of problems can be dealt with differently.

There are several measures of organizational distress, most of which originate from the core components of the organization, i.e., management failure, loss of employee loyalty, obsolescence of products and services offered by the organization, intertemporal irrelevance to the market, external macroeconomic conditions, and competitive threat (Ahmad, Zhang, Ahmad, & Ahmad, 2020; Altman, Hotchkiss, & Wang, 2019; Marso & Merouani, 2020). The signs of organizational distress manifest in reduced operational and financial results such as profitability and earnings, and cash flows (Santoro & Gaffeo, 2009), increased indebtedness (Halim, Mohd Daud, Rizal Mazlan, & Marzuki, 2008), inability to meet its statutory obligations (Senbet & Wang, 2012), shrinking financial resources, negative profitability, shrinking market, loss of legitimacy, and exit from international market (Maorwe, 2019; Puro & Borkowski, 2019).

According to Adnan Aziz and Dar (2006), the balance sheet approach predicts financial distress by looking at the balance sheet components of a representative organization. Typically, when an organization faces financial difficulties, the first items to suffer are the current accounts, i.e., current assets and current liabilities, due to their short-term nature and vulnerability to market behavior (Natalia, 2007). The change in an organization's balance sheet takes a form of either one or several line-item changes or a composite change that leads to a balance sheet shrink with a proportional change in both assets and liabilities (Monti & Garcia, 2010). Balance sheet changes send alertness signals to the market and may generate a compounding, anticipatory impact. Investors usually begin by looking at an organization's balance sheet for any investment decision they want to make about the company, and the balance sheet is the first point of reference for this matter (Slotemaker, 2008).

Another model frequently explaining the distress trajectory is the Gambler's ruin approach, which draws insights from the game and gambling theory to predict the gain/loss scenario (Lim, Lim Xiu Yun, Siwei, & Jiang, 2012). When applied within organizational financial distress, the theory stipulates the risky behavior of managers of distressed firms. Managers of distressed firms typically tend to hang onto the situation and try all possible options hoping that the situation will reverse. This behavior could be particularly prevalent if the managers are perceived as the cause of deterioration. In some cases, managers continue trading all options to the 11th

hour. This behavior is also noticeable in family businesses and businesses where corporate governance does not provide for segregation of duties and roles (Lim et al., 2012).

Sources of Organizational Financial Distress

Organizational financial distress can be attributed to several internal and external factors. On the one hand, internal factors constitute elements within the organization's control, such as leadership competency, employee characteristics, and workplace conditions. On the other hand, external elements include external stakeholders, government, regulatory authorities, suppliers and creditors, and international markets. The literature presents two broader views about the sources of organizational financial distress, namely the deterministic view and the voluntarist view.

The deterministic view postulates that an organization fails either due to industrial-organizational or organizational ecological reasons (Barron, 2001; Boone, Carlo Wezel, & van Witteloostuijn, 2006; Boone & Van Witteloostuijn, 1995; Geroski & Mazzucato, 2001). The industrial organization branch of the deterministic view adopts an intrinsic view to organization's failure by arguing that industry, commercial, and market factors are more critical to the organization's performance than any other factors, including internal factors such as operations, management, and technical aspects (Chang & Singh, 2000; Galbreath & Galvin, 2008). This school bases its thoughts on the economic theory and particularly on the Schumpeterian market equilibrium approach and stresses the role of external shocks. The central claim of this school is supported by external shocks, such as technological advancement, a shift in consumer preferences, a shift in production and distribution patterns that cause organizational financial distress by pushing firms out of business or making their product irrelevant in the market. The external factors that contribute to organizational distress include instability in market demand because of a shift in consumer tastes, cyclical swings in the business environment, competitive pressure, technological uncertainties resulting from alteration in product designs and delivery methods (Mahtani & Garg, 2018; Prayag, Chowdhury, Spector, & Orchiston, 2018). According to Slater and Narver (1994), the mechanism through which these external factors impact organizational fate manifests through the speed of change, adaptability patterns, and complexity of change.

On the other hand, the organizational ecology approach to organizational distress is premised on the belief that an organization fails or performs due to internal causes when it ceases to deliver its promises to its various stakeholders (Freeman & Cameron, 1993). This approach is an industry-specific approach that limits the causes of organizational distress to the state of the industry. According to this approach, organization success or failure hinges on two parameters, namely industry size, and industry longevity. The two premises, viewed severally or collectively, pertain to general industry dynamics and are not limited to organizations' specific environments (Altman & Hotchkiss, 2006; Siddiqui, 2012). The main weakness of the deterministic view is that it may, in some respects, promote moral hazard as it diverts attention from the organization's specific weakness and attributes the failure to industry or external environment.

The voluntarist approach refutes the claim that organizations succeed and/or fail due to industry and environment; and that managers and leaders have no role in the success and failure (Campbell, Dietrich, & Szilagyi, 2011; Finkelstein, Hambrick, & Cannella, 2009; Greenwood, 2005; Hambrick, Cho, & Chen, 1996; Szilagyi Jr & Schweiger, 1984). The voluntarist approach presents a solid foundation for modern organizational leadership and management theory by emphasizing the endogenous factors affecting the organization's performance, growth, and realization of its vision for stakeholders' value. The voluntarist approach presents four theoretical interpretations for organizational distress: the group behavior theory (Terry, Hogg, & White, 1999), the upper echelon theory (Hiebl, 2014), the curse of success theory (Rautalin & Alasuutari, 2007), and the threat rigidity view (Muurlink, Wilkinson, Peetz, & Townsend, 2012).

The groupthink theory is synonymous with herd behavior. It postulates that once rooted in an organization, group mentality promotes the psychology of herds behavior and free-rider attitudes, thereby destroying the drive towards innovation and solution mentality (Janis, 1972). The upper echelon theory suggests that the senior management positions and views control the organization's direction (Baldwin & Mason, 1983). In this case, the role of senior management is critical in organizational success, and, therefore, this approach attributes any performance issues to the discretion of the senior management. The curse of success theory emphasizes the complacency built from success and market dominance (Stiglitz, 1969). The curse of success theory indicates that highly performant organizations with product dominance and sustained customer loyalty may at some point take a back seat, not paying attention to market dynamics, until the point where new entrants begin to present existential threat (Mellahi, Jackson, & Sparks, 2002; Mellahi & Wilkinson, 2004). This phenomenon is observable in several industries that went down recently, including the automobile industry, Kodak, and Nokia (Ivancevich, Konopaske, & Matteson, 2014; Robinson & Judge, 2013). Finally, the threat rigidity view depicts the comfort-zone behavior and leadership myopia in the face of industrial threats (D'Aveni & MacMillan, 1990; Kiesler & Sproull, 1982; Muurlink et al., 2012).

Outcomes of Organizational Financial Distress

An organization's distress situation is not irreversible, and therefore it leads to several possible outcomes ranging from a workout and recovery (Lasfer, 2010; Wang & Shiu, 2014) to bankruptcy and liquidation (Li, Chiaburu, & Kirkman, 2014; Patti, 2014). The theorization of the organizational distress outcome is depicted in **Figure 1**.

Figure 1: Organizational Financial Distress Trajectory and Outcome

Review of Empirical Literature

The empirical research literature on organizational financial performance and financial distress follows an adaptive approach by investigating the state of the impacted variables after the event based on observable incidents in the underlying markets (Shie, Chen, & Liu, 2012). In other words, the literature lacks anticipatory or exploratory research that aims to predict future events. Furthermore, the relatively scarce empirical literature on financial distress follows a micro or discriminatory approach by assessing a specific set of factors instead of other factors that are likely to impact organizational financial performance (Schweizer & Nienhaus, 2017; Senbet & Wang, 2012). Factors impacting an organization's performance are not independent of each other as there could be instances where factors auto-reinforce, auto-moderate, or auto-neutralize (Gupta, Chaudhry, & Gregoriou, 2016; Ikpesu, Vincent, & Dakare, 2019; Samaraweera, 2018; Wesa & Otinga, 2018).

Therefore, it could be suggested that the empirical literature addresses the problem from a narrow field of vision. This tendency may be justified owing to the sheer number of variables causing organizational financial distress and the resultant complexity of data treatment within a universal model. Based on this perception and guided by the principal intention of this paper to derive a holistic model for organizational financial performance and distress within the financial industry, this section reviews empirical literature in the lens of marking events such as the 2008 global financial crisis. The empirical sample reviewed in this paper covers 14 geographical contexts, including one study from each of Austria, Canada, Latin America, Pakistan, Papua New Guinea, South Africa, Saudi Arabia, Jordan, Turkey, Uganda, two studies from Ghana and Tanzania, six studies from Nigeria and 17 studies covering Kenyan.

Botchway (2009) studied the relationship between regulatory environment and organizational financial performance for 11 listed commercial banks in Ghana. The regulatory environment was represented by two variables, namely efficiency, and competition. Herfindahl index and data envelopment analysis were adopted for measuring competition and efficiency, respectively. The study applied a logit regression technique and lagged data methodology into a cross-section of listed Ghanaian banks and found that both efficiency and competition are negatively correlated with financial distress. The study advocated for financial sector reform but favored positive discrimination in favor of locally-owned banks as they may be disadvantaged from drastic reform measures. This study represented a serious attempt to migrate from organizational financial distress's traditional accounting/financial analysis. However, the study lacked an assessment of the extent of reforms and their commensurate impact on financial distress probability. Further, it remains to be seen whether the study's findings are specific to Ghana or validated for other similar environments. Davies (2012) applied a panel-data regression model to predict the impact of cash flow management on financial distress for a sample of Kenyan banks from 2007 to 2011. In this study, cash flow was proxied for by interest earning to total assets, dividend payout, cash to dividend ratio, and the ratio of operating cash flow to deposits. Davies found negative coefficients for dividend and cash coverage and positive coefficients for interest ratio and operating cash flows. His study positioned cash flow management at the center of corporate management concerns and rekindled interest in the historical financial distress literature. The study recommendation for tighter cash flow management aligns with prudential guidelines but does not address the opportunity cost of foregone profitability. Almazari (2013) investigated the relationship between capital adequacy, cost-income ratio, and firm size on the one hand and financial performance on the other hand. The research covered nine publicly traded Saudi banks from 2007 to 2011 and used multiple linear regression models for data analysis. The study found a positive and robust relationship between capital adequacy, cost-income ratio, and bank size on the one hand, and profitability on the other hand. While Almazari's study recommends capital adequacy measures for policy purposes, it did not specify which capital adequacy metrics are appropriate for the Saudi financial market given the date of this publication compared to the latest Basel policy updates. Abdulazeed, Suleiman, Yahaya, and Dokochi (2016) researched the relationship between corporate governance, as measured by board size, and organizational financial distress by analyzing secondary data from listed Nigerian deposit money banks covering seven years. This study used the regression model for data analysis and found a positive correlation between corporate governance and financial performance. The study recommended

large board sizes to oversee policy and operational matters of organization. This study hints at the importance of organizational leadership but falls short of investigating the link between operational leadership and financial performance since the board of directors is not necessarily part of operational leadership. Further, organizations under distress situations may not afford to retain large board membership as the operating costs of the large board make organizational distress a self-fulfilling prophecy. Wapmuk (2016) assessed the impact of bank regulatory and supervisory status on Nigeria's banks' financial distress. In this study, regulatory status was taken as an independent variable and measured by capital adequacy, asset quality, management quality, earning ability, liquidity, sensitivity to risk, and bank size. A panel regression was applied for analytical purposes and concluded that regulatory status negatively correlates with the probability of financial distress. The research findings led to a recommendation that sustained supervision is beneficial for financial institutions in Nigeria. This study was modelled around Basel II capital adequacy and asset quality standards; therefore, it ignored the potential systemic impact of Basel III standards on the performance of financial institutions in volatile markets such as Nigeria. Muriithi, MunyuaWaweru, and Muturi (2016) evaluated the effects of credit risk measures on financial distress in the Kenyan banking sectors from 2005 to 2014. Credit risk was taken as an independent variable and financial distress as a dependent variable. Credit risk was measured by capital to risk-weighted assets, asset quality, loan loss provision, loan and advance ratios, and return on equity (ROE), while financial distress was proxied by profitability ratios. The study used panel data techniques of fixed effects estimation and generalized method of moments (GMM), appropriate for large-sample panels. Their study found a robust positive correlation between high credit risk, poor asset quality, high NPLs, and financial distress, both short and long runs. The research recommended rigorous credit risk analysis and loan administration but ignored the contextual aspects of underdeveloped markets rationally characterized by a lack of high-quality business modeling.

Sporta, Ngugi, Ngumi, and Nanjala (2017) assessed the impact of financial leverage on financial distress in 33 commercial banks in Kenya from 2005 to 2015 using secondary data and applying panel and logit regression techniques. They found a positive relationship between financial leverage and financial distress in Kenya. This study measured financial leverage by the debt-equity ratio, return on equity, and assets. Their findings could be recommended for policy purposes within the East African countries, but caution must be exercised because firm capital structure depends on several factors such as the weighted average cost of capital, bankruptcy protection laws, and financial depth. Abdirahman (2017) combined management type and capital adequacy as composite factors in assessing their impact on the financial distress of Chase Bank in Kenya. This study was an exploratory attempt to understand the causes of the collapse of Chase Bank in 2016. Therefore, the researcher interviewed managers, heads of department, and assistant managers of all the branches of the ailing bank and used interview-based descriptive statistics within a mixed method framework. The study found that management quality and capital adequacy adequately explain the reasons for financial distress in Chase Bank. The findings are of particular interest due to the introduction of qualitative aspects of organization leadership into the organizational distress literature. Chepngeno (2018) presented a new dimension to the financial distress profile of commercial banks in Kenya by assessing the impact of a policy response to recent interest rate capping on financial distress. Chepngeno analyzed the response strategies of all Kenyan commercial banks in 2017 using primary data based on questionnaires and secondary data from banks' financial publications and applying descriptive statistics as a statistical tool. The study found that Kenyan banks' response strategies largely insulated them from financial distress. Accordingly, this study recommended that bank managers apply sound strategies to deal with policy change on a situational basis. The study did not address inter-bank variations and the potential crowding out of bank customers affected by sectoral response strategies. Ellis (2019) analyzed the role of systemic risk, regulation, and efficiency in banks' financial performance in the UK using the Composite Index of Systemic Stress (CISS) to measure systemic risk while financial stability was represented by regulation and efficiency. Data from a cross-section of UK banks were analyzed using GMM regression. The paper found an overall negative relationship between increased risk, credit, leverage, diversification, liquidity risk, and financial performance. He recommended that banks competing within volatile markets need to pay special attention to potential domino effects arising from systemic risk. The findings of this study suggest that further academic research will be required in the composite area of liquidity and systemic risk.

Bassey, Mumin, Abubakar, Nkwo, and Okarima (2019) researched the impact of capital structure, measured by debt mix on the insolvency of UK financial firms from 2005 to 2016 using fixed-effect least squares techniques and assigning dummies to performance and non-performance scenarios. The study concluded that high leverage increases insolvency through a reduction in firm value. However, the relationship was found to be inconclusive. They recommended that debt uptake be considered with discretion and moderation and should further be guided by expected income from investment of funds generated from debt. This study lacked conclusiveness in investigating the effects of non-economic factors that may impact listed firms.

Distress Variables and Research Directions

The empirical literature review has identified several factors contributing to organizational financial distress summarised in the preceding studies. These factors include organization's credit standing (Chepkorir, Nyamweya, & Mureithi, 2019; Muriithi et al., 2016), international financial performance metrics (Adeusi, Akeke, Adebisi, & Oladunjoye, 2013; Ahmed, 2014; Awuah-Agyeman, 2015; Davies, 2012; Edson, 2015; Kibanga, 2019; Sporta et al., 2017), corporate governance (Abdulazeez, Mercy, Ndibe, & Dokochi, 2016; Abdulazeez, Suleiman, et al., 2016), industry (Ali, 2013; Botchway, 2009; Ellis, 2019), management (Abdirahman, 2017), and regulatory (Almazari, 2013; Bassey et al., 2019; Chepkorir et al., 2019; Chepngeno, 2018; Wapmuk, 2016).

The empirical research grouping in terms of date, context, and variables and the summary of methodologies adopted and findings are reported in **Error! Reference source not found.** and **Error! Reference source not found.**

Table 1: Empirical Research Grouping

Author(s)	Date	Location	Independent Variables	Dependent Variable	Research Grouping
Chepkorir and Mureithi	2019	Kenya	Credit diversification	Financial prediction distress	Credit
Muriithi, Waweru, and Muturi	2016	Kenya	Credit Risk proxied by capital to risk-weighted assets, asset quality, loan loss provision, loan and advance ratios	Financial distress	Credit
Adeusi, Akeke, Adebisi, and Oladunjoye	2013	Nigeria	Doubt loans capital/asset ratio	financial performance	Financial
Ahmed	2014	Saudi Arabia	Debt to equity ratio as a proxy for financial leverage	financial performance	Financial
Awuah-Agyeman	2015	Ghana	Return on equity	Capital structure	Financial
Davies	2012	Kenya	Cashflow proxies	Bank financial distress	Financial
Edson	2015	Tanzania	Bank profitability proxied by ROA and ROE	Debt Ratio (DR)	Financial
Kibanga	2019	Kenya	Financial performance proxied by financial services, credit portfolio administration, risk management, and savings	Member advancement (financial empowerment)	Financial
Sporta, Ngugi, Ngumi, and Nanjala	2017	Kenya	Financial leverage as a financial distress factor	financial performance	Financial
Abdulazeez, Mercy, and Dokochi	2016	Nigeria	corporate governance	financial distress	Governance
Ali	2013	Pakistan	Firm-level attributes	Profitability	Industry
Botchway	2009	Ghana	Competition Efficiency	Earnings Sustainability	Industry
Ellis	2019	UK	Composite Index of Systemic Stress (CISS)	Financial stability	Industry
Abdirahman	2017	Kenya	management type capital adequacy credit management	financial distress	Management
Almazari	2013	Saudi Arabia	capital adequacy cost-income ratio bank size with	profitability	Regulatory
Bassey, Mumin, BapubeAbubakar, Nkwo, and Okarima	2019	UK	Leverage as measured by debt mix	Firm value	Regulatory
Chepngeo	2018	Kenya	commercial banks response to the interest rate capping	financial performance	Regulatory
Wapmuk	2016	Nigeria	Banking supervision is proxied by capital adequacy, asset quality, management quality, earning ability, liquidity, sensitivity to risk, and bank size	Financial distress	Regulatory
Abdulazeez, Suleiman, Yahaya & Dokochi.	2016	Nigeria	returns on Asset (ROA) ROE	financial distress	Financial

Table 2: Summary of Empirical Research

Author(s)	Location	Focus	Conceptualization	Methodology	Findings
(Abdirahman, 2017)	Kenya	Management type, capital adequacy, and financial distress.	Management type, capital adequacy, and credit management as independent variables and financial distress and dependent variable.	Interview-based descriptive research. The researcher interviewed Managers, Heads of departments, and assistant managers within 77 branches of Chase Bank.	Quality of management affects financial distress. The corporate decisions process affects financial distress. Firms in financial distress are forced into bankruptcy when they fail to satisfy their agreements with their suppliers.
Abdulazeez, Mercy, et al. (2016)	Nigeria	Relationship between governance financial distress.	Quantitative governance as independent and distress as an independent.	Secondary quantitative data retrieved from annual reports of all listed banks in Nigeria covering seven years.	Board size has a positive and significant impact on organizational performance.
Abdulazeez, Suleiman, et al. (2016)	Nigeria	Relationship between acquisitions and mergers and financial distress.	The study adopted ROA and ROE to proxy for financial performance. T-Test statistics were employed for data analysis.	Secondary data was generated from the financial statement of four Nigerian based on convenience sampling techniques.	The study concluded that consolidation through mergers and acquisitions reduces the likelihood of bank financial distress.
Adeusi et al. (2013)	Nigeria	Relationship between risk management and financial performance of a sample of Nigerian banks.	Doubt loans and capital/asset ratio as predictors of bank financial performance.	Secondary data from audited accounts of 10 Nigerian banks. Data were analyzed using panel regression techniques.	The capital/asset ratio positively affects bank performance, and non-performing loans negatively affect bank performance.
Ahmed (2014)	Saudi Arabia	To investigate the effect of the debt and equity mix, as measured by financial leverage, on a firm's financial performance.	The study used the debt to equity ratio as an independent variable and proxy for financial leverage to measure a firm's financial performance.	Investigated 57 traded Saudi firms from 2002 to 2010. Data were analyzed using panel regression techniques.	Lower leverage levels tend to lead to higher profit margins and returns on both assets and equity.
Ali (2013)	Pakistan	To find the impact of leverage, the participation of equity, and insider ownership on profitability.	Employing the cross-sectional data of 84 companies in Pakistan and 75 companies in India from 2000 to 2010.	The study used four-variable multiple regression models to assess the impact of firm-level attributes on firm profitability.	The study found that profitability and long-term leverage are negatively correlated for both sample groups. The study also found that insider ownership is positively related to profitability but significant in India and insignificant in Pakistan.

Table Cont'd Almazari (2013)	Saudi Arabia	Assess the relationship between capital adequacy ratios and firm performance as measured by profitability.	Audited accounts of listed Saudi banks capturing the period from 2007 to 2011 were analyzed using panel regression.	The study used a linear regression model.	Capital adequacy, cost-to-income ratios, and firm size positively and significantly affect firm performance and adversely affect distress probabilities.
Awuah-Agyeman (2015)	Gana	Relationship between capital structure and financial performance.	ROE and after-tax profits measure performance. Capital structures were measured by natural logs of short-term and long-term debt in addition to equity ratios.	Fixed-effect and random-effect panel regression method was used in this study, besides descriptive statistics and correlation.	The study found that equity was positively correlated with profitability, and short-term and long-term debt was negatively correlated with profitability. However, the results for long-term debt were insignificant.
Bassey et al. (2019)	UK	Capital structure, profitability, and financial performance.	The study predicted leverage as measured by debt mix on firm value.	Examine the relationship between capital structure and firm value. The analysis was conducted using a fixed-effect least squares dummy variable model for UK financial organizations from 2005 to 2016.	Highly geared firms have lower value and a higher insolvency likelihood. The study also found that firm value is negatively related to insolvency but insignificant.
Botchway (2009)	Ghana	The regulatory environment and financial performance.	The study used the Herfindahl index to measure competition and data envelopment analysis to measure efficiency in listed banks in Ghana.	The study applied lagged data analysis methodology using a logit regression model.	The study found efficiency and competition to be positively related to stabilization. However, the link between efficiency and competition was not clear.
Chepkorir et al. (2019)	Kenya	Relationship between the diversification of credit and financial distress for publicly traded Kenyan commercial banks.	Regression-based prediction model in which credit diversification was regressed on financial distress prediction.	Cross-section and time-series data of 11 listed commercial banks in Kenya through simple random sampling techniques. Primary data was collected through an interview guide, and secondary data was collected from financial statements.	Diversification of credit impacts firm financial performance positively and significantly.

Chepngeno (2018)	Kenya	Commercial banks' response strategies to the interest rate capping and financial performance/distress.	The study analyzed the impact of interest rate capping on commercial banks' performance and.	The study applied descriptive statistics for the whole population of banks in operation in 2017 in Kenya using primary data from a structured questionnaire and secondary data from financial reports.	The study found that response strategies widely and positively impacted banks' performance following the interest capping.
Table Cont'd					
Davies (2012)	Kenya	Cash flow management and financial performance/distress.	This study attempted to predict the impact of cashflow proxies, namely interest-earning to total assets, dividend payout, cash to dividend ratio, and the ratio of operating cash flow to deposits on bank financial distress.	The relationship between cash flow performance and overall bank financial performance was investigated using panel regression for a sample of Kenyan banks from 2007 to 2011.	The study found that interest ratio and operating cashflows positively impact financial distress, whereas dividend and cash coverage were insignificant.
Edson (2015)	Tanzania	To investigate the relationship between financial leverage and the commercial bank's profitability in Tanzania.	Bank profitability was taken as dependent variables and proxied for by Return on Average Asset (ROA) and Return on Average Equity (ROE), while the dependent variable was taken as Debt Ratio (DR).	2007-2013 secondary data for a sample of publicly-listed Tanzania banks were analyzed using descriptive statistics.	The study found that both ROA and ROE are positively correlated to bank profitability.
Ellis (2019)	UK	This paper examines the role of risk, regulation, and efficiency on banks' financial stability in the UK.	The study adopted the Composite Index of Systemic Stress as a proxy for systemic risk and regulatory efficiency for financial stability.	The study used GMM regression to assess a conjoint sample of US and UK banks.	Credit, leverage, and liquidity risk negatively impact financial stability
Kibanga (2019)	Kenya	The impact of financial performance on the financial empowerment of SACCOs in Kenya.	The study used financial services and credit administration as measures of financial performance and member advancement as a measure of financial empowerment.	This study used descriptive and inferential statistics, including correlation and multiple regression, to assess financial performance impact on financial stability to assess a sample of financial SACCOs in Kenya.	A strong positive correlation between financial services, credit portfolio administration, risk management, and voluntary savings and member advancement

Muriithi et al. (2016)	Kenya	Relationship between credit risk and financial performance for a sample of traded commercial banks in Kenya.	Basel capital adequacy ratios measure credit risk, and profitability was used as a proxy for financial distress.	The study used panel data techniques of fixed effects estimation and generalized method of moments (GMM) to study all the Kenyan commercial banks from 2005 to 2014 using secondary data obtained for 43 accredited banks.	The study found that credit risk, poor asset performance, and high NPLs have a negative and significant impact on bank profitability both in the short and long runs.
Table Cont'd					
Sporta et al. (2017)	Kenya	To study the effects of financial distress on commercial banks' performance. The level of financial leverage represents financial distress.	The study attempted to predict the impact of financial leverage as a financial distress factor on the performance of a sample of Kenyan commercial banks.	The study used descriptive and analytical statistical methods to analyze secondary data from 38 commercial banks in Kenya from 2005 to 2015.	The study concluded that leverage negatively affects financial performance while ROA and ROE positively correlate with financial performance.
Tuwei (2013)	Kenya	Assess the impact of mergers on the capital structure using the case of NIC Bank in Kenya.	Explanatory research design using secondary data from Nairobi Stock Exchange.	Multiple regression	The study found that firm size generated by mergers and acquisitions significantly impact firm capital structure as a proxy for financial performance.
Wapmuk (2016)	Nigeria	To assess the impact of capital adequacy, asset quality, management quality, earning ability, liquidity, sensitivity to risk, and bank size on bank financial distress.	Banking supervision was adopted as an independent variable that was proxied for by capital adequacy, asset quality, management quality, earning ability, liquidity, sensitivity to risk, and bank size, while financial distress was taken as a dependent variable.	The study used a panel regression method to analyze Nigerian banks listed on the Nigerian Stock Exchange.	The study found a robust negative impact on bank supervision and banks' financial distress.

Classification of Distress Factors

As it emerges from the literature, the organizational financial distress can be attributed to five groups of factors, namely industrial factors (Memba & Nyanumba, 2013), external factors (Mellahi et al., 2002; Mellahi & Wilkinson, 2004), endogenous factors (Campbell et al., 2011; Finkelstein et al., 2009; Greenwood, 2005; Hambrick et al., 1996; Szilagyi Jr & Schweiger, 1984), commercial factors (Schweizer & Nienhaus, 2017; Senbet & Wang, 2012), and company characteristics (Mellahi et al., 2002; Mellahi & Wilkinson, 2004). Each of these five factors includes several sub-factors, variables, and indicators. For instance, employee motivation is an endogenous factor that an organization can influence through specific policies. However, employee motivation is measured by several factors that collectively represent a panel of variables for a study that aims to assess the role of employee motivation on an organization's performance. This analysis also applies to other factors, namely external, internal, industrial, and commercial. A summary of these factors is reported in **Figure 2**.

Figure 2: Classification of Distress Factors

In terms of variable selection and specification, most of the publications on organizational financial distress examine the following factors. First, the organization's credit standing (Chepkorir et al., 2019; Muriithi et al., 2016). Second, international financial performance metrics (Adeusi et al., 2013; Ahmed, 2014; Awuah-Agyeman, 2015; Davies, 2012; Edson, 2015; Kibanga, 2019; Sporta et al., 2017). Third, corporate governance (Abdulazeez, Mercy, et al., 2016; Abdulazeez, Suleiman, et al., 2016). Fourth, industry characteristics (Ali, 2013; Botchway, 2009; Ellis, 2019). Fifth, management behaviors (Abdirahman, 2017). Sixth, the regulatory environment (Almazari, 2013; Bassey et al., 2019; Chepkorir et al., 2019; Chepngeno, 2018; Wapmuk, 2016). Seventh, macroeconomic and microeconomic aspects (Ahmadi & Kordloezi, 2018; Kahya & Theodossiou, 2015; Keasey, Pindado, & Rodrigues, 2015; Kozusznik, Rodríguez, & Peiró, 2015; Li, 2014; Ndungu, 2019; Rianti & Yadiati, 2018; Samaraweera, 2018; Senbet & Wang, 2012). However, this approach leads to partial or weak explanatory results as, for instance, endogenous factors causing financial distress may be reinforced by external factors such as policy change, increased competition, or macroeconomic instability.

Distress Prediction Models

Models predicting organizational financial distress adopt various approaches and follow the cyclical business cycles in predicting the prevalent contemporaneous market conditions. The empirical literature identifies four major distress prediction theories, all originating from the stock market-based economies such as the US and Germany (Wallace, 1981). The main models are the Modigliani-Miller theorem, Beaver's Model, Olsen model, and Altman Z-score model. These models have been developed to incorporate emergent and contemporaneous factors within the financial distress literature. Other more recent models based on the logit technique include Zmijewski's Probit model, Shumway's hazard model, and Blum's D-score model.

The Modigliani-Miller Model assumes a perfect and efficient market environment characterized by perfect competition, information symmetry, and the absence of rent markup (Stiglitz, 1969; Wallace, 1981). The theory claims that when the competitive market conditions prevail, market players are indifferent about using equity or debt in their capital structure since the zero charges on capital and zero costs of bankruptcy cancel out the differential between the equity cost and debt cost. Beavers' model is a simple univariate prediction model based on liquidity solvency as measured by cash flow to total debt (Beaver, 1966). This model presents an

organization as a cash flow house that grows with cash flow injection and recesses with cash flow leakage. In reality, however, cash flow can only be conditionally predicted upon the balance sheet, and trade account factors as cash are, in essence, converting non-liquid and semi-liquid assets into liquid assets. Therefore cash cannot be generated without underlying performing assets (McNamara et al., 2011).

Ohlson's model was developed in the 1980s during the post-oil-crisis depression (Liu & Ohlson, 2000). Ohlson used logistic regression analysis to predict financial distress using four variables: firm size, firm financial structure, firm financial performance metric, and firm liquidity position. Of the four variables, only firm size is generated from non-financial data, and therefore, Ohlson's model has pioneered the drive toward developing a holistic model to predict organizational financial distress (Schweizer & Nienhaus, 2017). Also, Altman proposed the Z-score to assess financial distress within listed commercial organizations (Altman & Hotchkiss, 2006). The model predicts higher chances of financial distress, the lower the composite score. According to Altman, a score of 1.8 or less indicates the existence of financial distress, a score between 1.8 and 3 indicates a moderate situation, while a score of three and above indicates solid financial performance (Manyo, 2006). The Z-score is premised on the Multiple Discriminant Analysis analytical tools, often adopted when multiple variables are considered (Edson, 2015). The technique is applied to even out inter-variable discrepancies for ease of comparability and grouping. The Z-score incorporates five independent variables, a dependent variable, a constant term, and an error term. The model is given in Equation 1.

Equation 1 Z-score model

$$Z = 0.012X_1 + 0.014X_2 + 0.033X_3 + 0.006X_4 + 0.999X_5.$$

In the above equation, Z represents a composite score of organizational financial distress, X1 represents working capital over total assets, X2 represents retained earnings over total assets, X3 represents earnings before interest and taxes over total assets, X4 represents the market value of equity over book value of total liabilities, and X5 represents sales over total assets (Altman & Hotchkiss, 2006). A full report of the financial distress prediction models, model variables, and data analysis techniques is reported in Table 1.

Table 1: Empirical Models of Financial Distress

Model	Data Analysis Technique	Variables
Altman Z-score Model	Multiple Discriminatory Analysis	Working capital ÷ Total assets Retained earnings ÷ Total assets EBITDA ÷ Total assets Historic equity value ÷ historic liability value Sales ÷ Total assets
Ohlson O-Score Model	Logit Panel Regression	Total assets ÷ GNP price index Total liabilities ÷ Total assets Working capital ÷ Total assets Current liabilities ÷ Current assets Net income ÷ Total assets Operating cash flow ÷ Total liabilities
Zmijewski's Probit Model	Probit	Net income ÷ Total assets Total liabilities ÷ Total assets Current assets ÷ Current liabilities
Shumway Hazard Model	Hazard	Net income ÷ Total liabilities Total liabilities ÷ Total assets Share price ÷ Market Cap
Blum's D-Score Model	Logit	Net income ÷ Total assets Total debt ÷ total equity Total Equity ÷ Total assets Share Price movement Growth in sales Current liabilities ÷ Total assets

Source: Adopted from Ashraf, GS Félix, and Serrasqueiro (2019)

Conclusion

The role of organizations in every modern society cannot be stressed enough as they play a vital role in service delivery in all aspects of life. Organizations also represent carriers or platforms through which a given economy's state of progress or regress is felt as advance signals to the future state of the economy. Besides being critical agents in every economy, organizations also represent centers where a complex network of stakeholder interests is served. Thus, when an organization performs and meets its obligations regularly under normal conditions, all its stakeholders are satisfied. On the other hand, when an organization shows distress by not

honor its contractual obligations due to internal inefficiencies, financial challenges, administrative incompetence, or statutory restrictions, it sends negative signals to the stakeholder community. It attracts or accelerates the flow of claims. The empirical literature shows that the recovery process favors mechanical, administrative, financial measures that, in most cases, disregard the role of organizational leadership.

This paper attempted to bridge the gap in the literature by incorporating the role of leadership in organizational distress. Leadership's role is vital in the course of the expected performance of an organization. This role becomes critical when an organization shows signs of financial distress because effective leadership uses timely communication with all stakeholders to control or reverse the declining trend. Effective leadership also uses industry-wide relations to obtain concessions and negotiate settlements or access credit lines to turn the organizations around. The central argument is that leadership competency and ability to manage or orchestrate the contingent claims of the various stakeholders could either reverse a trend of financial distress or initiate recovery when the firms are already in financial distress.

The organizational distress literature has left several questions unanswered, including the nature of backward and forward feedback among the phases of the organization's lifecycle (Ndungu, 2019), the dominant determinants of the direction, pace, and magnitude of the transition from performance to distress, stability and recovery (Keasey et al., 2015; Muigai, 2016), the question pertaining to why some organizations recover while others fall into bankruptcy and liquidation (Meeme, 2015), and the impact of size, geography and industry on the organization's performance, distress and recovery (Schweizer & Nienhaus, 2017).

According to Schweizer and Nienhaus (2017), the organization distress literature since 1960 conspicuously concentrated on manufacturing firms and ignored other critical service sectors. Schweizer further claims that the financial industry has received the least attention. Therefore, the performance-distress-recovery lifecycle in the financial industry, particularly in Africa, is a clear research gap.

Recovery phase research is another area where literature lacks behind. Traditionally, literature paid more attention to how organizations fall into distress and less attention to how they may be steered out of distress (Sahebjamnia, Torabi, & Mansouri, 2015). This may be due to the perception that the recovery process follows policy prescriptions and has more to do with legal aspects of contracts and claims, while distress is perceived as a policy or operational matter. Therefore, there is scarce literature on how the recovery process takes effect and the shape and contractual relations of the organization after recovery.

Another area of significant research gap in organizational distress is the role of leadership. Pomerance (2009) argues that literature paid little attention to the role of leadership in effecting organizational recovery. In some instances, leadership is ignored due to the inherent perception that distress could have been prevented.

The content-context and process integration have been highlighted by some scholars as a potential research gap that warrants additional scholarly effort. It is unclear how the organization transits between the performance, distress, stability, and recovery phases (Schweizer & Nienhaus, 2017). It is further unclear whether there is any form of interdependence among the transition lifecycle phases and any form of fulfilled prophecy. The literature treats the four phases as distinct and disconnected aspects of an organization. Therefore, there is a need for more research to identify a traceable interconnection between the four phases with specific interest to answer the question as to whether there is a dominant variable or factor that impacts the pace, velocity, and magnitude of the organization's transition among the four phases.

The above points primarily speak to the analysis result of the empirical sample studied in this chapter. Some of the research gaps identified from the review of this sample of empirical research include mechanisms to sustain resilience during financial distress, sample sizes, variable selection, expansion of the geographic contexts to assess the likelihood of similarity within adjacent regions, and the expressed role of leadership and governance in the distress-recovery cycle. Additionally, the common characteristic of the recommendations emerging from the studies that have been reviewed in this paper includes the following. First, leadership competency, sound governance, and credible management are critical for an organization's performance. Second, organization size, mergers, and acquisitions are generally perceived as positive moves in the face of financial distress. Third, the expansion of credit products increases the organization's scope of operations and creates wiggle room to navigate credit tightening during challenging times. Fourth, debt is generally preferred over equity during good times because companies pay less dividends. However, during hard times, equity would be an ideal option to reduce the likelihood of liquidation (Li, 2014; Patti, 2014; Senbet & Wang, 2012; Wang & Shiu, 2014). Finally, most of the studies found that cash flow, performance ratios, and leverage ratios play a critical role in firm performance and distress because these short-term ratios represent the first lines of defense in the event of the organization's trading disequilibrium. Summary of the research gaps identified in this study and recommendations for future research are summarized in Appendix.

References

- Abdirahman, Y. (2017). *Factors Causing Corporate Financial Distress in Commercial Banking Sector in Kenya: A Case of Chase Bank*. (MBA). United States International University,
- Abdulazeed, D. A., Mercy, A. M., Ndibe, L., & Dokochi, Y. M. (2016). Corporate Governance and Financial Performance of Listed Deposit Money Banks in Nigeria. *Journal of Business and Management*, 18(4), 4-11. doi:10.9790/487X-1804030411

- Abdulazeez, D. A., Suleiman, O., Yahaya, A., & Dokochi, Y. M. (2016). Impact of Merger and Acquisition on the Financial Performance of Deposit Money Banks in Nigeria. *Journal of Economics and Finance*, 7(2), 60-66. doi:10.9790/5933-0702036066
- Adeusi, S. O., Akeke, N. I., Adebisi, O. S., & Oladunjoye, O. (2013). Risk Management and Financial Performance Of Banks In Nigeria. *Journal of Business and Management*, 14(6), 52-56.
- Adnan Aziz, M., & Dar, H. A. (2006). Predicting corporate bankruptcy: where we stand? *Corporate Governance: The international journal of business in society*, 6(1), 18-33.
- Ahmad, S., Zhang, L., Ahmad, A., & Ahmad, A. (2020). *Effect of financial distress on firm's performance of non-financial firms registered with Pakistan Stoke Exchange*: ijbms.org.
- Ahmadi, R., & Kordloeezi, H. (2018). The Effect of Financial Distress on the Investment Behaviour of Companies Listed on Tehran Stock Exchange. *Advances in Mathematical Finance*, 3(4), 1-19. doi:10.22034/AMFA.2019.565459.1108
- Ahmed, H. (2014). *An Investigation of the Effect of Financial Leverage on Firm Financial Performance in Saudi Arabia*. (Ph.D.). Victoria University, Australia.
- Ahrend, R. (2010). Monetary ease: A factor behind financial crises? Some evidence from OECD countries. *Economics: The Open-Access, Open-Assessment E-Journal*, 4, 12.
- Ali, A. (2013). Effect of capital structure on the performance of firms: Evidence from Pakistan and Indian stock market. *Journal of Business and Management*, 12(6), 83-93.
- Almazari, A. A. (2013). Capital Adequacy, Cost Income Ratio and the Performance of Saudi Banks (2007-2011). *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 3(4), 284-293. doi:10.6007/IJARAFMS/v3-i4/21
- Altman, E., & Hotchkiss, E. (2006). *Corporate financial distress and bankruptcy*. NJ: John Wiley & Sons.
- Altman, E., Hotchkiss, E., & Wang, W. (2019). *Corporate financial distress, restructuring, and bankruptcy: analyze leveraged finance, distressed debt, and bankruptcy*: books.google.com.
- Ashraf, S., GS Félix, E., & Serrasqueiro, Z. (2019). Do Traditional Financial Distress Prediction Models Predict the Early Warning Signs of Financial Distress? *Journal of Risk and Financial Management*, 12(2), 55.
- Awuah-Agyeman, D. (2015). *Assessing the Impact of Capital Structure on Profitability of Manufacturing Industry in Ghana: A Case Study*. (MBA). Kwame Nkrumah University, Ghana,
- Baldwin, C. Y., & Mason, S. P. (1983). The resolution of claims in financial distress the case of Massey Ferguson. *The Journal of Finance*, 38(2), 505-516.
- Barron, D. N. (2001). Organizational ecology and industrial economics: a comment on Geroski. *Industrial and Corporate Change*, 10(2), 541-548.
- Bassey, I., Mumin, A., Abubakar, B., Nkwo, J. A., & Okarima, R. (2019). Capital Structure, Firm Value and Insolvency Probability in the UK. *Journal of Economics and Finance*, 10(3), 37-43. doi:10.9790/5933-1003013743
- Beaver, W. H. (1966). Financial ratios as predictors of failure. *Journal of accounting research*, 71-111.
- Becker, F. (2007). Organizational ecology and knowledge networks. *California management review*, 49(2), 42-61.
- Boone, C., Carlo Wezel, F., & van Witteloostuijn, A. (2006). Top management team composition and organizational ecology: A nested hierarchical selection theory of team reproduction and organizational diversity. In *Ecology and Strategy* (pp. 103-135): Emerald Group Publishing Limited.
- Boone, C., & Van Witteloostuijn, A. (1995). Industrial organization and organizational ecology: The potentials for cross-fertilization. *Organization studies*, 16(2), 265-298.
- Botchway, A. (2009). *An Evaluation of Financial System in Ghana*. (Ph.D.). Clement University, University of Ghana.
- Campbell, J. Y., Dietrich, J., & Szilagyi, J. (2011). Predicting Financial Distress and the Performance of Distressed Stocks. *Journal of Investment Management*, 9(2), 14-34.
- Chang, S. J., & Singh, H. (2000). Corporate and industry effects on business unit competitive position. *Strategic management journal*, 21(7), 739-752.
- Chepkorir, D., Nyamweya, S., & Mureithi, G. (2019). Effect of Credit Diversification on Financial Distress Prediction of Commercial Banks Listed At the Nairobi Securities Exchange, Kenya. *Journal of Business and Management*, 21(6), 39-45. doi:10.9790/487X-2106043945
- Chepngeno, E. (2018). *The Effect of Response Strategies of Interest Rate Capping on the Financial Performance of Commercial Banks in Kenya*. (MBA). University of Nairobi, Kenya.
- D'Aveni, R. A., & MacMillan, I. C. (1990). Crisis and the content of managerial communications: A study of the focus of attention of top managers in surviving and failing firms. *Administrative Science Quarterly*, 634-657.
- Davies, I. (2012). *The Role of Cash Flow information in Predicting Financial Distress Among Commercial Banks in Kenya*. (MBA). University of Nairobi, Kenya.
- Edson, I. W. (2015). *The Effect of Financial Leverage on Commercial Banks' Profitability in Tanzania*. (MBA). University of Dar Es Salaam, Tanzania.
- Ellis, S. (2019). *The Role of Systemic Risk, Regulation and Efficiency within the Banking Competition and Financial Stability Relationship*. (Ph.D.). Northumbria University, UK.
- Fawley, B. W., & Neely, C. J. (2013). Four stories of quantitative easing. *Federal Reserve Bank of St. Louis Review*, 95(1), 51-88.

- Finkelstein, S., Hambrick, D. C., & Cannella, A. A. (2009). *Strategic leadership: Theory and research on executives, top management teams, and boards*. UK: Oxford University Press.
- Freeman, S. J., & Cameron, K. S. (1993). Organizational downsizing: A convergence and reorientation framework. *Organization science*, 4(1), 10-29.
- Galbreath, J., & Galvin, P. (2008). Firm factors, industry structure and performance variation: New empirical evidence to a classic debate. *Journal of Business Research*, 61(2), 109-117.
- Geroski, P. A., & Mazzucato, M. (2001). Modelling the dynamics of industry populations. *International Journal of industrial organization*, 19(7), 1003-1022.
- Greenwood, M. (2005). *The bigger picture: developing the ethics and HRM debate*. Paper presented at the 19th ANZAM Conference (Greg Fisher 07 December 2005 to 10 December 2005).
- Gupta, J., Chaudhry, S., & Gregoriou, A. (2016). Financial Distress and Downside Risk. In: University of Birmingham.
- Halim, A., Mohd Daud, S., Rizal Mazlan, A., & Marzuki, A. (2008). Macroeconomic determinants of corporate failures in Malaysia. *International Journal of Business and Management*, 3(3), 3-10.
- Hambrick, D. C., Cho, T. S., & Chen, M.-J. (1996). The influence of top management team heterogeneity on firms' competitive moves. *Administrative Science Quarterly*, 659-684.
- Hiebl, M. R. (2014). Upper echelons theory in management accounting and control research. *Journal of Management Control*, 24(3), 223-240.
- Ikpesu, F., Vincent, O., & Dakare, O. (2019). Financial Distress Overview, Determinants, and Sustainable Remedial Measures. In *Corporate Governance Models and Applications in Developing Economies* (pp. 102-113): IGI Global.
- Ivancevich, J. M., Konopaske, R., & Matteson, M. T. (2014). *Organizational Behavior and Management* (Tenth ed.). NY: McGraw-Hill.
- Janis, I. L. (1972). Victims of groupthink: A psychological study of foreign-policy decisions and fiascos.
- Kahya, E., & Theodossiou, P. (2015). *Predicting Corporate Financial Distress: A Time-Series CUSUM Methodology*. (Ph.D.). Rutgers University, (08102)
- Keasey, K., Pindado, J., & Rodrigues, L. (2015). The determinants of the costs of financial distress in SMEs. *International Small Business Journal*, 33(8), 862-881.
- Kibanga, J. (2019). *Effect of Financial Empowerment on Member Advancement of Licensed Deposit-taking Saccos in Nairobi County*. (Ph.D.). Jomo Kenyatta University, Kenya.
- Kiesler, S., & Sproull, L. (1982). Managerial response to changing environments: Perspectives on problem sensing from social cognition. *Administrative Science Quarterly*, 548-570.
- Koech, E. C., Nyang'aya, A., & Mugo, R. (2018). Prediction of Financial Distress in the Light of Financial Crisis: A Case of Listed Firms in Kenya. *International Journal of Economics, Commerce and Management*, 6(6), 207-226.
- Kozusznik, M. W., Rodríguez, I., & Peiró, J. M. (2015). Eustress and distress climates in teams: Patterns and outcomes. *International Journal of Stress Management*, 22(1), 1-23. doi:10.1037/a0038581
- Lasfer, M. (2010). Corporate financial distress and recovery: the UK evidence. *Corporate Financial Distress and Recovery: The UK Evidence* (November 7, 2010).
- Li, N., Chiaburu, D. S., & Kirkman, B. L. (2014). Cross-level influences of empowering leadership on citizenship behavior: Organizational support climate as a double-edged sword. *Journal of management*, 20(10), 1076-1102. doi:10.1177/0149206314546193
- Li, W. G. (2014). Corporate Financial Distress and Bankruptcy Prediction in the North American Construction Industry.
- Lim, T., Lim Xiu Yun, J., Siwei, G., & Jiang, H. (2012). Bankruptcy prediction: theoretical framework proposal. *International Journal of Management Sciences and Business Research*, 1(9).
- Liu, J., & Ohlson, J. A. (2000). The Feltham-Ohlson (1995) model: empirical implications. *Journal of Accounting, Auditing & Finance*, 15(3), 321-331.
- Mahtani, U., & Garg, C. (2018). An analysis of key factors of financial distress in airline companies in India using fuzzy AHP framework. *Transportation Research Part A: Policy and* Retrieved from <https://www.sciencedirect.com/science/article/pii/S096585641830569X>
- Manyo, T. S. (2006). *Testing the Effectiveness of Camel Rating Model in Predicting Bank Distress in Nigeria*. (MBA). University of Nigeria, Nigeria.
- Maorwe, T. (2019). *Effect of Corporate Board Structure on Financial Distress of Non-Financial Firms Listed At Nairobi Securities Exchange*: 41.204.183.105.
- Marso, S., & Merouani, M. E. (2020). Predicting financial distress using hybrid feedforward neural network with cuckoo search algorithm. *Procedia Computer Science*. Retrieved from <https://www.sciencedirect.com/science/article/pii/S1877050920304919>
- McNamara, R., Duncan, K., & Kelly, S. (2011). *Micro and macro determinants of financial distress*. Paper presented at the 15th International Business Research Conference. Sydney, Australia.
- Meeme, M. (2015). *The relationship between adherence to BASEL III accord and financial distress status of commercial banks in Kenya*. (Doctoral dissertation). University of Nairobi, Nairobi.

- Mellahi, K., Jackson, P., & Sparks, L. (2002). An exploratory study into failure in successful organizations: The case of Marks & Spencer. *British Journal of Management*, 13(1), 15-29.
- Mellahi, K., & Wilkinson, A. (2004). Organizational failure: a critique of recent research and a proposed integrative framework. *International Journal of Management Reviews*, 5(1), 21-41.
- Memba, F., & Nyanumba, J. (2013). Causes of financial distress: A survey of firms funded by industrial and commercial development corporation in Kenya. *Interdisciplinary journal of contemporary research in business*, 4(12), 1171-1185.
- Monti, N. E., & Garcia, R. M. (2010). A statistical analysis to predict financial distress. *Journal of Service Science and Management*, 3(03), 309.
- Muigai, R. G. (2016). *Effect of capital structure on financial distress of non-financial companies listed in Nairobi Securities Exchange*. COHRED, Finance, JKUAT.
- Muller, G., Steyn-Bruwer, B., & Hamman, W. (2009). Predicting financial distress of companies listed on the JSE-A comparison of techniques. *South African Journal of Business Management*, 40(1), 21-32.
- Muriithi, J. G., MunyuaWaweru, K., & Muturi, W. M. (2016). Effect of Credit Risk on Financial Performance of Commercial Banks Kenya. *IOSR Journal of Economics and Finance*, 07(04), 72-83. doi:10.9790/5933-0704017283
- Muurlink, O., Wilkinson, A., Peetz, D., & Townsend, K. (2012). Managerial autism: Threat-rigidity and rigidity's threat. *British Journal of Management*, 23, S74-S87.
- Natalia, O. (2007). *Corporate Financial Distress: An Empirical Analysis of Distress Risk*. (Ph.D.). University of St. Gallen, Switzerland. (3430)
- Ndungu, R. W. (2019). *Determinants of financial distress in Kenyan Commercial Banks*. Strathmore University.
- Patti, A. (2014). *Financial Distress and Bankruptcy: Tools for preserving the Soundness of Financial System*. (Ph.D.). University of Liberia.
- Platt, S. (2017). *Factors affecting the speed and quality of post-disaster recovery and resilience*. Paper presented at the International Conference on Earthquake Engineering and Structural Dynamics.
- Pomerance, H. (2009). Organizational Distress, Leadership and Communications. *International Journal of Coaching in Organizations*(2). Retrieved from www.icjo.info
- Prayag, G., Chowdhury, M., Spector, S., & Orchiston, C. (2018). Organizational resilience and financial performance. *Annals of Tourism Research*, 73, 193-196. doi:10.1016/j.annals.2018.06.006
- Puro, N., & Borkowski, N. (2019). Financial Distress and Bankruptcy Prediction: A Comparison of Three Financial Distress Prediction Models in Acute Care Hospitals. *Journal of Health* Retrieved from <http://healthfinancejournal.com/index.php/johcf/article/view/199>
- Rautalin, M., & Alasuutari, P. (2007). The curse of success: The impact of the OECD's Programme for International Student Assessment on the discourses of the teaching profession in Finland. *European Educational Research Journal*, 6(4), 348-363.
- Rianti, I. P., & Yadiati, W. (2018). How Financial Distress Influence By Firm Size. *International Journal of Scientific & Technology Research*, 7(1), 1-15.
- Robinson, S., & Judge, T. (2013). *Organizational behavior* (15th ed.). NJ: Prentice Hall.
- Sahebjamnia, N., Torabi, S. A., & Mansouri, S. A. (2015). Integrated business continuity and disaster recovery planning: Towards organizational resilience. *European Journal of Operational Research*, 242(1), 261-273.
- Samaraweera, A. (2018). A Conceptual Review of Existing Models on Prediction of Corporate Financial Distress. *International Journal of Advancements in Research & Technology*, 7(7), 124-135.
- Santoro, E., & Gaffeo, E. (2009). Business failures, macroeconomic risk and the effect of recessions on long-run growth: A panel cointegration approach. *Journal of Economics and Business*, 61(6), 435-452.
- Schweizer, L., & Nienhaus, A. (2017). Corporate distress and turnaround: integrating the literature and directing future research. *Business Research*, 10(1), 3-47. doi:10.1007/s40685-016-0041-8
- Senbet, L. W. (2010). Corporate Financial Distress and Bankruptcy: A Survey. *Foundations and Trends® in Finance*, 5(4), 243-335. doi:10.1561/05000000009
- Senbet, L. W., & Wang, T. Y. (2012). Corporate financial distress and bankruptcy: A survey. *Foundations and Trends in Finance*, 5(4), 243-335. doi:10.1561/05000000009
- Shie, F. S., Chen, M.-Y., & Liu, Y.-S. (2012). Prediction of corporate financial distress: an application of the America banking industry. *Neural Computing and Applications*, 21(7), 1687-1696.
- Siddiqui, S. A. (2012). Business bankruptcy prediction models: A significant study of the Altman's Z-score model. *Available at SSRN 2128475*.
- Slater, S. F., & Narver, J. C. (1994). Does competitive environment moderate the market orientation-performance relationship? *Journal of marketing*, 58(1), 46-55.
- Slotemaker, R. (2008). *Prediction of Corporate Bankruptcy of Private Firms in the Netherlands* (A Master's Thesis, Erasmus University, Rotterdam, Netherlands).
- Sporta, F. O., Ngugi, P. K., Ngumi, P., & Nanjala, C. S. (2017). The Effect of Financial Leverage as a Financial Distress Factor on Financial Performance on Commercial Banks in Kenya. *IOSR Journal of Business and Management*, 19(07), 57-71. doi:10.9790/487x-1907035771
- Stiglitz, J. E. (1969). A re-examination of the Modigliani-Miller theorem. *The American Economic Review*, 59(5), 784-793.

- Szilagyi Jr, A. D., & Schweiger, D. M. (1984). Matching managers to strategies: A review and suggested framework. *Academy of Management review*, 9(4), 626-637.
- Terry, D. J., Hogg, M. A., & White, K. M. (1999). The theory of planned behaviour: self-identity, social identity and group norms. *British journal of social psychology*, 38(3), 225-244.
- Tirapat, S., & Nittayagasetwat, A. (1999). An investigation of Thai listed firms' financial distress using macro and micro variables. *Multinational Finance Journal*, 3(2), 103-125.
- Tuwei, J. K. (2013). *Effects of Mergers on Capital Structure of a Firm: A case of National Industrial Credit Bank*. (MBA). MOI University, Kenya.
- Wallace, N. (1981). A Modigliani-Miller theorem for open-market operations. *The American Economic Review*, 71(3), 267-274.
- Wang, M.-J., & Shiu, H.-R. (2014). Research on the common characteristics of firms in financial distress into bankruptcy or recovery. *Investment Management and Financial Innovations*, 11(4), 233-243.
- Wapmuk, S. (2016). *Banking Regulation and Supervision in Nigeria: An Analysis of the Effects of Banking Reforms on Bank Performance and Financial Stability*. (Ph.D.). University of Salford, UK.
- Wesa, E. W., & Otinga, H. N. (2018). Determinants of financial distress among listed firms at the Nairobi Securities Exchange. *The Strategic Journal of Business and Change Management*, 5(4), 1057-1073. Retrieved from www.strategicjournals.com

Publisher's Note: SSBFNET stays neutral with regard to jurisdictional claims in published maps and institutional affiliations.

© 2021 by the authors. Licensee SSBFNET, Istanbul, Turkey. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (<http://creativecommons.org/licenses/by/4.0/>).

International Journal of Research in Business and Social Science (2147-4478) by SSBFNET is licensed under a Creative Commons Attribution 4.0 International License.

Appendix

Appendix 1: Recommendation and Research Gap

Author(s)	Research Gaps	Recommendations
(Abdirahman, 2017)	How can financial organizations pumper their resilience to deal with losses in the event of financial distress.	The study recommends upholding high standards and competency for all management teams to increase resilience in the face of financial upheaval.
Abdulazeez, Mercy, et al. (2016)	The cost operational cost implications of larger board size have not been considered in the study.	Banks should increase their board size but within the maximum limit set by the code of corporate governance.
Abdulazeez, Suleiman, et al. (2016)	The downside risks of mergers and acquisitions, such as market and consumer irrelevance, have not been addressed.	The paper recommends that banks be more aggressive in financial products marketing to increase financial performance to reap the benefit of post mergers and acquisition bids in the Nigerian banking sector.
Adeusi et al. (2013)	Some instances of prudent risk management may entail divestment. The study ignored the relative importance of risk management for firms operating in segregated markets.	The study recommended the need for banks to employ prudent risk management principles to protect stakeholder interests.
Ahmed (2014)	The study has not justified an exemplary optimal mixture of capital structures that achieve the best financial performance.	The research recommends more profound studies to assess Islamic tax infrastructure on financial performance.
Ali (2013)	The study has not justified an exemplary optimal mixture of capital structures that achieve the best financial performance.	The study recommends the implementation of effective capital structure strategies to improve their profitability and performance.
Almazari (2013)	It may be prudent to reassess the findings of this research in light of new capital adequacy measures rolled out by Basel II and Basel III.	The study recommends a strict application of capital adequacy measures to reduce the likelihood of financial distress and bankruptcy.
Awuah-Agyeman (2015)	The impact of agency principles concerning equity leverage has been overlooked in this study.	Firms should use more equity and internally generated funds to fund their business as opposed to debt leverage.
Bassey et al. (2019)	Firm value is also impacted by non-economic factors, particularly for listed firms, for which the net effect should have been investigated.	The study recommends moderate debt uptake in line with the expected income from invested funds.
Botchway (2009)	More studies on the extent of financial sector reforms and the expansion of the geographic context are needed.	The study recommends that bank ownership be considered when implementing financial sector reforms as some local banks may be disadvantaged compared to foreign-owned banks.
Chepkorir et al. (2019)	The study is silent on the demand-side aspects of credit diversification. Further, profitability from credit diversification should be modeled to assess the risk appetite.	The study recommends the introduction of new types of credit to diversify banks' portfolios.
Chepngeno (2018)	While the response strategies have positively impacted banking performance, the study does not address inter-bank variations and the potential crowding out of bank customers affected by sectoral response strategies.	Bank managers should draw strategic policies to deal with unexpected regulatory interventions.
Davies (2012)	The downside risk of tight cash management is an opportunity cost of higher profitability.	The study recommends paying more attention to cash flow management to avoid the likelihood of distress.
Edson (2015)	The significant gap in this research is ignoring the additive or componential relations between ROA and profitability.	The study recommends maintenance and observance of performance ratios as catalysts for sustained profitability.
Ellis (2019)	further academic research is needed in the composite area of liquidity and systemic risk.	Banks competing within volatile markets need to pay special attention to potential domino effects arising from systemic risk.
Kibanga (2019)	The SACCOs in Kenya are a volatile and loosely regulated industry. More rigorous studies, therefore, are needed in their financial and regulatory aspects.	The study recommends that more research be done on the financial factors that affect the financial empowerment of SACCOs in Kenya.
Muriithi et al. (2016)	while credit risk management has been empirically established as a strong predictor of financial performance. Contextual aspects are missing concerning market development in emerging markets.	The study recommends that banks strengthen their credit analysis and loan administration capabilities.
Sporta et al. (2017)	This is a localized research effort that needs to be replicated into comparable markets for rigor.	The study recommends the expansion of the data to East Africa.
Tuwei (2013)	Both financial and non-financial aspects drive mergers and acquisitions. More research is, therefore, needed on the non-financial aspects.	The study recommends that banks in Kenya evaluate merger and acquisition offers in light of firm size, NPLs, and non-interest income generation potential.
Wapmuk (2016)	The emergent items in banking supervision based on Basel III capital adequacy standards require more rigorous research, particularly in volatile markets such as Nigeria.	The study recommends increasing supervision of the Nigerian banks to observe the sustained performance of the policy ratios.