ABTRACT

The purpose of this study was to obtain empirical evidence about what factors that can be used to predict the condition of a company's financial distress, and to compare the ability of the two techniques are often used in predicting financial distress conditions. Variables tested in this study is the financial ratios and corporate sensitivity to the macroeconomic variables.

The Sample consists of 121 nonfinancial companies listed on the Stock Exchange in Indonesia from 2003-2008. The sample is selected by purposive sampling. Techniques used in this study is Discriminant Analysis and Logistic Regression. Variables estimated by using the Stepwise approach to Discriminant Analysis and Backward stepwise for Logistic Regression.

The study shows that Logistic Regression is an approach that is relatively better compared with Discriminant Analysis. This is reflected by the correct value of Logistic Regression estimates that the average higher than the correct value of Discriminant Analysis estimates respectively for 89.0% and 86.8% for predicting the condition of financial distress. The study also showed company's sensitivity to the macroeconomic variables and financial ratios is the best variable in predicting corporate financial distress.

Keywords: *Financial distress, financial ratio, sensitivity to the macroeconomic variables,, discriminant analysis, logistic regression.*