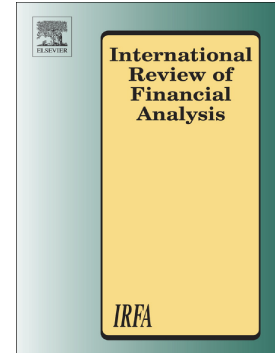


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Prediction of company failure: Past, present and promising directions for the future

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Prediction of company failure: Past, present and promising directions for the future**By****Ranadeva Jayasekera****Trinity Business School, Trinity College Dublin, Dublin 2, Ireland****Email: jayasekr@tcd.ie****Abstract**

The quest for a reliable tool that can predict company failure has been pursued with keen interest both by academics and practitioners for a more than a century. This paper presents a survey of the key papers published on bankruptcy prediction from a critical perspective and discusses models published in the academic literature, are frequently cited and considered to have made a significant contribution to the literature on business failure. This study provides an overview of the significant models, conducts a critical discussion of these models highlighting their virtues and drawbacks. The paper concludes with the author outlining the basic concept of a Value Erosion Model, where 'value' is defined as the future potential of a firm and argues that such a model can address some of the significant drawbacks associated with existing models, offering interesting avenues for future research in the development of an academically robust practically applicable bankruptcy protection model.

Key Words: Bankruptcy Prediction, Financial distress, Accounting based statistical models, market based models, value erosion model

JEL classification: G33, G17

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