

MIDLANDS STATE UNIVERSITY

FACULTY OF COMMERCE  
DEPARTMENT OF ACCOUNTING



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**DISSERTATION**

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**RESEARCH TOPIC**

*AN ASSESSMENT OF THE IMPACT OF FUNDING GAP ON FINANCIAL PERFORMANCE OF  
PARASTATALS*

**CASE STUDY**

*Small and Medium Enterprises Development Corporation*

*(SMEDCO)*

**SUBMITTED IN PARTIAL FULLFILLMENT OF THE REQUIREMENTS OF THE  
BACHELOR OF COMMERCE ACCOUNTING HONOURS DEGREE**

MIDLANDS STATE UNIVERSITY  
FACULTY OF COMMERCE  
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**APPROVAL FORM**

The undersigned certify that they supervised the student Clive Kuzivakwashe Makurumidze dissertation entitled “**An assessment of the impact of funding gap on financial performance of parastatals**” A case of **Small and medium enterprises development corporation.**” submitted in partial fulfilment of the Bachelor of Commerce Accounting Honours Degree at Midlands State University.

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## **DEDICATION**

This research is dedicated to my family, friends and almighty lord.

## **ACKNOWLEDGEMENTS**

To start with, I would like to express thanks to the Almighty God for pull me this far in my academic endeavour. I am largely grateful to my supervisor Ms Mhaka for the support during challenging times and her valuable guidance, patience and taking it upon her in making sure that the research succeed.I would also like to convey my appreciation to the department of accounting and my lecturers for impacting relevant knowledge that enabled me to write this report.I also express thanksto SMEDCO management for granting me the opportunity to carry out my research project using their corporation as a case study.This report would not have been possible without the help, efforts and talents of the men and women I had the priviledge tocall my friends. I would also want to thank my family for their unwavering support.I will forever be indebted to them for their love and their prayers. I could never have gone this far in my studies without them.

## LIST OF ACRONYMS

ACRONYM	MEANING
SMEDCO	Small and Medium Enterprises Development
USD	United States Dollar
MSMECD	Ministry of Small and Medium Enterprises
BADEA	Arab Bank of Economic Development in
ISA	International Standard of Auditing
NSSA	National Social Security Authority
MFI	Micro- Finance Institutions
MSMEs	Micro, Small and Medium Enterprises

## **ABSTRACT**

The research focused on the impact of funding gap on profitability of SMEDCO, thus how the lack of working capital has affected the financial performance of the corporation. The research was inspired by the failure of the corporation to fulfil its mandate of giving loans to small and medium enterprises due to lack of funds. SMEDCO has put a moratorium on disbursements as the corporation has no funds for disbursements. This has affected the financial performance of the corporation as SMEDCO has been recording losses since the inception of USD era.

Literature related to the study was also reviewed so as to fortify the base of the research. The research incorporated a mixed approach so as to cater for both qualitative and quantitative data. Descriptive, correlation research approaches with a sample size of 31 respondents was exploited in collecting primary and secondary data. The author also used questionnaires and interviews as instruments to collect data. Tables, graphs and charts were used in presenting and analysing the data collected. The research proved that the funding gap that has affected SMEDCO arose from failure to attain external funding due to lack of collateral security and political instability. The research suggested that SMEDCO should engage financial institutions so as to get funding. It was recommended that the corporation can downsize or use debt factoring so as to improve its working capital level.

## TABLE OF CONTENTS

Item	Details	Page Number
	APPROVAL FORM	ii
	RELEASE FORM	iii
	DEDICATION	iv
	ACKNOWLEDGEMENTS	v
	LIST OF ACRONYMS	vi
	ABSTRACT	vii
	TABLE OF CONTENTS	viii
	LIST OF TABLES	xi
	LIST OF FIGURES	xiii
	<b>CHAPTER ONE: INTRODUCTION OF THE STUDY</b>	1
1.1	Background to the Study	1
1.2	Statement of the Problem	2
1.3	Main Research Question	3
1.4	Objectives of the Study	3
1.5	Sub Research Questions	3
1.6	Significance of the Study	3
1.7	Assumptions	4
1.8	Delimitations	4
1.9	Limitations of the Study	4
1.10	Definitions and Abbreviations	5
1.11	Summary	5
	<b>CHAPTER TWO: LITERATURE REVIEW</b>	7
2.0	<b>Introduction</b>	7
2.2	<b>Reasons for failure to attain external funding</b>	7
2.2.1	Liquidity.	7
2.2.2	Sound Financial Management	8
2.2.3	Lender-borrower Relationship	9



2.2.4	Previous history of borrowing	10
2.2.5	Inflation	10
2.2.6	Political Instability	11
2.2.7	Quality of assets and collateral	12
<b>2.2</b>	<b>Alternative ways of bridging funding gap</b>	12
2.2.1	Retained earnings	13
2.2.2	Bank loans and overdrafts	13
2.2.3	Debt factoring	14
2.2.4	Assets disposal	14
2.2.5	Government grants	15
<b>2.3</b>	<b>Going concern</b>	15
2.3.1	Effects of going concern on funding	16
<b>2.4</b>	<b>Relationship between funding gap and employee turnover</b>	17
2.4.1	Effects of working capital on rate of turnover	17
2.4.2	Effects of turnover on profitability	19
<b>2.5</b>	<b>Relationship between profitability and funding gap</b>	19
2.5.1	Aggressive strategy	21
2.5.2	Conservative strategy	22
	<b>Summary</b>	22
	<b>CHAPTER THREE: RESEARCH METHODOLOGY</b>	23
3.0	Introduction	23
3.1	Research design	23
3.1.1	Descriptive case study research	23
3.2	Study population	25
3.3	Sample size and design	25
3.4	Sampling procedures	26
3.5	Data Sources	26
3.5.2	Secondary data	27
3.6	Data collection instruments	27
3.6.1	Interviews	27

3.6.2	Questionnaires	28
3.6.3	Likert scale	29
3.7	Reliability and validity of instruments	29
3.8	Data presentation and analysis	30
	<b>Summary</b>	31
	<b>CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS</b>	32
4.0	Introduction	32
4.1	Analysis of response rate	32
4.1.1	Questionnaire response rate	32
4.14	Interview Responses	57
	<b>Summary</b>	64
	<b>CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS</b>	65
5.0	Introduction	65
5.1	Chapter Summaries	65
5.2	Major Research Findings	66
5.3	Research Conclusions	68
5.4	Recommendations	68
5.5	Further areas of study	69
	<b>Summary</b>	69
	<b>BIBLIOGRAPHY</b>	70
	<b>APPENDICES</b>	81

## LIST OF TABLES

<b>ITEM</b>	<b>DESCRIPTION</b>	<b>PAGE #</b>
Table 1.1	Capital budget	2
Table 3.3.1	Population and sample size	27
Table 3.2	Likert scale	31
Table 4.1	Questionnaire response rate	33
Table 4.2	Employee duration with the corporation	34
Table 4.3	Level of academic qualifications	35
Table 4.4.1	The effects of Liquidity position on accessibility of external funding	35
Table 4.4.2	Illustration of whether financial management affect accessibility to external funding by SMEDCO	37
Table 4.4.3	Illustrates whether lender-borrower relationship affect accessibility to external funding by SMEDCO	38
Table 4.4.4	Illustrates whether previous history of borrowing affect accessibility to external funding by SMEDCO	39
Table 4.4.5	Illustrates the effects of inflation on accessibility to external funding by SMEDCO	40
Table 4.4.6	Analysis of political instability as a factor affecting SMEDCO's accessibility to external funding	40
Table 4.4.7	Illustrates if collateral security affect accessibility to external funding by SMEDCO	41
Table 4.5.1	Illustrates if SMEDCO can use retained earnings to reduce funding gap	41
Table 4.5.2	Results to show if SMEDCO use bank loans and overdrafts as a source of working capital	43
Table 4.5.3	Results to show if SMEDCO use debt factoring as a source of working capital	43
Table 4.5.4	Illustrates if SMEDCO uses disposal of assets as source finance	45
Table 4.5.5	Illustrates if SMEDCO uses government grants as source finance	45
Table 4.6	Illustrates whether HCCL is a going concern entity	46
Table 4.7	Illustrates if SMEDCO's cash flow statement show a negative operating cash flows	47
Table 4.8	Illustrates that SMEDCO's financial position indicates a risk of insolvency arising from poor cash management, poor debtors' management and huge capital expenditures.	47

Table 4.9	Illustrates if SMEDCO is losing out its key management without replacement	50
Table 4.10	Illustrates the relationship between funding gap and rate of employee turnover at SMEDCO	50
Table 4.10.1	Illustrates the variables to show the relationship between Funding gap and turnover	51
Table 4.11	Illustrates the relationship between turnover and financial performance of SMEDCO	52
Table 4.11.1	Illustrates figures of variables to show the relationship between turnover and profitability at SMEDCO	53
Table 4.12	Illustrates if working capital level affect the profitability of SMEDCO	54
Table 4.12.1	Illustrates figures of variables to show the relationship between funding gap and profitability at SMEDCO	55
Table 4.13	illustrating the type of working capital SMEDCO uses	55

### LIST OF FIGURES

ITEM	DESCRIPTION	PAGE #
Fig 4.4.1	The effects of Liquidity position on accessibility of external funding	35
Fig 4.4.3	Illustrates whether lender-borrower relationship affect accessibility to external funding by SMEDCO	38
Fig 4.4.6	Analysis of political instability as a factor affecting SMEDCO's accessibility to external funding	40
Fig 4.4	Illustrates if SMEDCO can use retained earnings to reduce funding gap	41
Fig 4.5.3	Results to show if SMEDCO use debt factoring as a source of working capital	44
Fig 4.8	Illustrates that SMEDCO's financial position indicates a risk of insolvency arising from poor cash management, poor debtors' management and huge capital expenditures.	48
Fig 4.11	Illustrates the relationship between turnover and financial performance of SMEDCO	52
Fig 4.12	Illustrates if working capital level affect the profitability of SMEDCO	54
Fig 4.13	Illustrating the type of working capital SMEDCO uses	56

## **CHAPTER 1: INTRODUCTION TO THE STUDY**

Most parastatals are exposed to challenges in acquiring external funding and the majority of them rely on funding within the boundaries of their country which is not easy to get hold of (Mutambanadzo, et al., 2013) (Simmy & Zairi, 2009). (Nyanga, et al., 2013) (Macharia, 2014) (Rusvingo, 2014) (Staff Reporter, 2014) Agree that the low funding of parastatals has significantly affected its operations and that sufficient funding is essential for the corporations to attain its mandates. On the other hand, (Dandira, 2011) (Emeh, 2012) went on to say that the poor performance of parastatals come as a result of poor corporate governance and rewarding poor performance. They further stated that executives are rewarded for poor performance, huge packages have been paid to directors, whether they perform well or below the set standard they can still be rewarded. By following the line of investigation, there is no consensus as to the reason why parastatals have a dismal financial performance. Hence this has prompted the researcher to look at the impact of funding gap on the financial performance of SMEDCO, an MFI, registered through the MSMECD act.

### **1.1 BACKGROUND OF THE STUDY**

SMEDCO is a micro financial institution with the legal mandate to develop small and medium enterprises through provision of both financial and business extension services. In the SMEDCO recapitalisation meeting held on the 15<sup>th</sup> of January 2016, the finance director, Mrs Toga said that SMEDCO needs a funding of \$5 000 000 for working capital. The corporation has managed to source \$500 000 only, \$100 000 from POSB overdraft account and \$400 000 from NSSA, these has resulted in a funding gap of \$4 500 000. The lack of funds has also negatively affected the operations department which had a target of disbursing \$5 000 000. The corporation will receive at most \$60 000 as revenue from interest on loans if they disburse the \$500 000 at 12% interest rate per annum against a revenue of \$600 000 if they disburse \$5 000 000 that's reporting an adverse variance on profit of \$540 000.

During the meeting it was also stated that the institution had failed to meet the customer demand due to lack of financial resources and this has negatively affected the revenue levels of the corporation. As at the end of 31 December 2015, the institution had disbursements of \$180 000 whose applications were approved but not yet disbursed because of lack funds. SMEDCO has put a moratorium on lending activities as the institution does not have sufficient funds to meet the disbursements.

According to the financial statements of SMEDCO, the corporation has recorded a loss of \$369 408 and this was as a result of little funds received for operations. If the corporation had received the funding of \$5 000 000 they have budgeted they would have made a minimal revenue of \$600 000 from interest on loans, \$50 000 from application fees and \$37 500 from disbursement to make it a total revenue of \$687 500 however, the corporation managed to source \$1 026 020 for working capital and they received \$101 383 as revenue from interests, \$20 000 from application fees and \$7 680 from disbursement fees. All because of the funding gap the corporation lost expected revenue of \$558 437 which would have covered for the \$369 408 loss, leaving an excess of \$189 029.

**Table 1.1 CAPITAL BUDGET**

	<b>12% Interest revenue</b>	<b>Loan Application fees revenue</b>	<b>Loan Administration fees revenue</b>
<b>Expected Revenue (\$5 000 000)</b>	\$600 000	\$ 50 000	\$ 37 500
<b>Revenue Received( \$ 1 026 020)</b>	\$101 383	\$ 20 000	\$ 7 680
<b>Variance</b>	\$ 498 617 (A)	\$ 30 000 (A)	\$ 29 820 (A)

*Source: SMEDCO Annual General Meeting Minutes (15 February 2016)*

## **1.2 PROBLEM STATEMENT**

Reflecting on the liquidity crunch and working capital a problem being faced by SMEDCO, the corporation is struggling to fulfil its mandate of disbursing loans to firms operating in the

informal sector. The corporation have got limited funds for its operations hence facing difficulties funding its routine activities and this has led to SMEDCO scaling down its operations and workforce that is the employees are working two weeks in and two weeks out on a half salary. The challenges are now on how to source the funds that will help to resuscitate the corporation.

### **1.3 MAIN RESEARCH QUESTION**

What is the impact of funding gap on financial performance of parastatals on SMEDCO?

### **1.4 OBJECTIVES OF THE STUDY**

- ✚ To establish the reasons why SMEDCO is failing to attain external funding?
- ✚ To identify alternative ways that SMEDCO can use to bridge the funding gap on its loan disbursements?
- ✚ To analyse the going concern for SMEDCO?
- ✚ To analyse the relationship between funding gap and employee turnover?
- ✚ To determine the relationship between funding gap and profitability of the corporation?

### **1.5 SUB RESEARCH QUESTIONS**

- ✚ What are the reasons for SMEDCO's failure to attain external funding?
- ✚ In what ways can SMEDCO bridge the funding gap on its disbursements?
- ✚ Is SMEDCO still a going concern?
- ✚ Is there a relationship between funding gap and employee turnover?
- ✚ Is there a relationship between funding gap and profitability of the corporation?

### **1.6 SIGNIFICANCE OF THE STUDY**

The findings and recommendations from this research can be of assistance to other public corporations (parastatals) when exposed to the same difficulties that SMEDCO is facing thus



they can employ the recommendations to solve the common problem. The research can also help stakeholders operating in the economic environment of Zimbabwe which has been crippled by liquidity crisis on how to self fund. The information can also be used to create new business and maintain sustainability of existing business. It can also be predicted that the study has presented helpful information for scholars which can be employed by students with the desire to research on the same matter.

## **1.7 ASSUMPTIONS**

This study assumed that:

- ✚ The data collected from SMEDCO is reliable and will be a resemblance of all the parastatals in Zimbabwe.
- ✚ The research respondents will present correct and honest answers on the questionnaires and interviews.
- ✚ The targeted sample will cooperate.

## **1.8 DELIMITATIONS**

- ✚ The research will cover the period from 2013 to 2015
- ✚ The research will focus on SMEDCO employees to answer the questionnaires and the interviews.
- ✚ Only employees from SMEDCO head office, Harare branch and Gweru branch were selected to represent all the SMEDCO employees countrywide that is the research is confined within the boundaries of Zimbabwe only.

## **1.9 LIMITATIONS OF THE STUDY**

- ✚ The respondents may give inaccurate information as most of their information is not presented on any paper, nevertheless the researcher will use triangulation

which will allow comparison of data from questionnaires with the one from interviews to see if it corresponds hence this improves reliability of the data.

- ✚ This study concentrated on SMEDCO hence the data may not be a true reflection of the events from other parastatals, however the researcher will concentrate on problems and solutions which prevails in most parastatals.
- ✚ The respondents can also present incorrect information as they can be biased hence the researcher assured the respondents that the data will be employed for academic use only.

## **1.10 DEFINATIONS AND ABBREVIATIONS**

**Performance-** the capability of a corporation to realize its objectives as measured by **Profitability**, expansion and staff turnover (Scapens, 2010).

**External financing-** refers funds sourced from outside the corporation.

**Funding gap**—it is the amount of money needed to fund the corporation's operations not provided for by debt, equity or cash (Araghi, 2008).

**Parastatals-** are corporations which are owned by the state or government (Rusvingo, 2014).

**MSMECD-** Ministry Of Small and Medium Enterprises and Co-operative Development

**SMEDCO-** Small and Medium Enterprises Development Corporation.

**BADEA-** Arab Bank of Economic Development in Africa.

## **1.11 SUMMARY**

This chapter was to establish the background of the study; statement of the problem, objectives, delimitations, limitations and definition of terms to be of assistance to the reader to

develop an appreciation of the problem. The next chapter will present the review of related literature.

## **CHAPTER 2:LITERATURE REVIEW**

### **2.0 INTRODUCTION**

This chapter gives an overview on the existing literature on the funding gap in parastatals. It looks on what other authorities wrote on the topic. The literature is therefore to assist the author to have a better insight of the topic. It also aims at analyzing the evidence and establishing the findings with contradictory evidence and identifying the research gap left by the authors. Section 2.1 will explain why SMEDCO has failed to attain external funding. Section 2.2 will give details on alternative ways of bridging the funding gap; fragment 2.3 will give an explanation the going concern of the corporation. Part 2.4 will explore the relationship that exist between funding gap and employee turnover and part 2.5 will give details on the relationship that exist between profitability and funding gap.

### **2.1 Reasons for failure to attain external funding**

External funding are finances sourced from outside the firm to increase the cash inflows of the corporation to be used for funding day to day operations (Kiweu, 2009). Funding is the lifeblood of every organisation, the continuation of a corporation revolves around the amount of working capital available. The ability of a corporation to attract external funding is the key to its growth and sustainability. (Huang & Hooper, 2011) posit that liquidity, quality financial management and borrowing history is the key for organisations to access funding from external sources. Inflation, political environment, assets quality and collateral security are crucial elements which are considered before issuing loans to lenders (Kiweu, 2009).

#### **2.1.1 Liquidity**

(Amengor, 2010) (Dang, 2011) cited that liquidity management refers to the ability of corporations to meet their immediate obligations. (Chang & Velasco, 2010)(Encan & Evirgen, 2010) stated that liquid corporations are able to fund all contractual liabilities when they fall due hence liquid corporations are entrusted by borrowers and they usually find it easy to access external funding. (Arena, 2011)agreed to the same view stating that liquid

corporations are usually able to meet its obligations as they fall due. However, in contrast (Alshatti, 2014) stated that illiquid corporations should have access to funding since they are the ones in need of the cash to fund their operations. (Dang, 2011) Further alluded that liquidity and payment of due obligations have got an inverse relationship. (Arena, 2011)also highlighted that external funding is pursued to maintain a desired level of liquidity hence most corporations that apply for external funding will be facing liquidity challenges. Above all, (Al-Tamini & Al-MAzroe, 2010)(Kairiza, 2012)stated that liquidity is a measure of whether debtors are paying their balances due or not hence it does not affect the firm's capacity to access external funding. (Yazdanfar & Öhman, 2014)) Cited that while borrowers ultimately make their own decisions on the borrower's capacity to settle up a loan, these decisions are informed by a business proposal submitted by the borrower and the expected proceeds from the funded programme are the ones to pay for the loan hence the corporate liquidity position is not considered but the authenticity of the programme to be funded by the borrowed funds.

While aforementioned authorities provide a variety of views on the subject however, the matter remains that liquidity position affect the accessibility to external funding by parastatals. The research seeks to answer if failure by parastatals to attain external funding originates from their liquidity problems.

### **2.1.2 Sound financial management**

Efficiency and effective of management is the key factor to profitability of the corporation. (Emeh, 2012) highlighted that the failure of parastatals originate from the inefficiency of administration. They further explore that supervision and management practices are the key determinants of a corporation's success or collapse and poor management will lead to erosion of capital and poor portfolio status hence lenders regard them not worthy to receive funding. (Dandira, 2011) also stated that for a corporation to attract external funding there should be

evidence that the management will be able to manage the funds and pay back loans and the interest when they fall due hence the discipline of the management is considered for a corporation to access funding. On the other hand, (Dandira, 2011) (Deckle, 2014) stated that even if the responsibility of safeguarding assets of the corporation lies with the management, there are some other inherent factors to the line of business that affects the profitability level of the corporation. They further went on to say that performance of management is subjectively measured hence it's not a factor to be considered by lenders if they are to fund the corporation.

The above authorities failed to have a mutual ground as to whether sound financial management affect the accessibility to external funding hence this current study will seek to answer if financial management have got a bearing on accessibility of external funding.

### **2.1.3 Lender- borrower relationship**

The relationship that exists between the lender and the borrower plays a pivotal role on the borrower to access funds (Rajan, 2009). (Edelman, 2012)The relationship that is built when the lender and the borrower are doing business with each other leads to growth of information asymmetry between the corporations hence makes it more easy for the lenders to access funds since the lenders already have got a knowhow of the business operations (Rajan, 2011). The strength of the relationship is measured by the time the corporations have been in business with each other. (Aghasi, 2012)(Odebe, 2011) agreed that as the relationship between the corporations grows, the borrowers are exposed to high costs of switching to new lenders hence the lenders can extract rents from informational captured borrowers. The relationship also gives rise to monopoly power and the lenders tend to capitalise on that by charging high interests to the borrowers (Modigliani, 2011). (Patton, 2012) (Quadrini, 2012) (Abuzayed, 2012) agreed that the relationship between borrower and lender does not guarantee the borrower to access funding. They stated that the requirements for a loan application are the

same for everyone and there is no compromise of the requirements because of the relationship.

It still remains a concern that borrower-lender relationship is the cause of failure of parastatals to access funding. This research further explores if lender-borrower relationship limits parastatals from accessing external funding.

#### **2.1.4 Previous history of borrowing**

(Charitou, et al., 2010) stated that the history of borrowing the lending firm is considered when accessing funding. They further stated that corporations with history of defaulting are not worth of getting funds. According to (Abuzayed, 2012), a corporation with a bad record with its previous lenders is not worthy of receiving any funding. (Eramus, 2010) supported the above view stating that its risk to lend funds to a corporation with a reputation of defaulting payments. However, (Bokova, 2013) stated that some corporations default loan repayments unwilling. (Kozhanova, 2013) (Edelman, 2012) Further stated that economic recession pose difficulties to corporations in meeting its immediate obligations. (Kozhanova, 2013) (Dandira, 2011) Stated that corporations should not be judged with their past. They further stated that the problem of defaulting payments should be blamed upon management since they are the ones who decide on payments.

Though myriad authorities have publicized various views, it remains a concern as to why parastatals in Zimbabwe fail to access external funding. For that reason this study aims at analysing the causes of failure of parastatals in accessing external funding.

#### **2.1.5 Inflation**

(Boyd, et al., 2010) (Bettencourt, 2010) pointed out that increase in inflation affect the allocation of resources by financial institutions as it decreases the actual return on currency. An increase in inflation will lead to shranked market which will inturn lead rationing of credit thus banks reduce their loan portfolios (English, 2011). (Salehi & Namazi, 2010)

(Bettencourt, 2010) agreed that there is a negative correlation between inflation and performance of financial institutions. (Kairiza, 2012) stipulated that financial institutions take advantage of high inflation by charging high interest rates on loans hence more disbursements. (Tan & Floros, 2012) highlighted that inflation does not affect loan disbursements but the lenders since they will be charged high interest rates on the loans to cover for the inflation gap.

Considering all the views of the authorities, it still remain an issue as to why SMEDCO find it difficult to access external hence this study aims to answer if inflation affect accessibility to external funding by parastatals.

#### **2.1.6 Political instability**

Steadiness of political environment is the key to foreign funding of parastals (Aisen & Veiga, 2010). According to (Brada, et al., 2014), political instability pose a risk to the lenders thus if civil wars or any form of unsettlement the lenders will lose the cash they have disbursed. (Fielding, 2011) stated that political instability affect the liquidity of financial institutions hence a decrease in disbursements. On the hand, (RBZ, 2013), they reported that intervention of the government politically with financial institutions in decisions of offering credit facilities had a positive impact on the solvency of the economy. (Amedu, 2012) (Abuzayed, 2012) Governments' offers financial help to financial institutions which will in turn enable the institutions to meet their disbursements. They went on to say that the monetary policies of the government guide all financial institutions and this has proved to be efficient as financial institutions can disburse. Considering the various views of the authorities above there seem to be a gap on the effects of politics on funding hence this research will focus on the effects of politics on accessing external funding of parastatals.



### **2.1.7 Quality of assets and collateral security**

Collateral security is a pledge by the borrower of specific assets to the lender to secure for a loan repayment (Athanasoglou, et al., 2012). The pledged assets serve as a security for a lender against a borrower's defaulting hence it can be used to counterbalance the loan if the borrower fails to payback the principal and the interest. (Abuzayed, 2012)(Bokova, 2013)stated that the quality of the assets to be pledged as collateral should be considered in case the borrower defaults loan or forfeits the assets.(Dandira, 2011)highlighted that for a corporation to access funding they should surrender rights to specific assets to the lender to guarantee a loan repayment. They further stated that assets that have been pledged for collateral for a different loan cannot be used as collateral to the new loan until the older loan is paid in full. However, (Simmy & Zairi, 2009), stated that other firms submit movable property as collateral and later sell the property. At SMEDCO, the effects of collateral security on accessing external funding will be looked at as the research unfolds.

### **2.2 Alternative ways of bridging funding gap**

Working capital is the key factor for survival of every corporation. A poor financial structure causes problems in the day to day operations of corporations, including, poor marketing strategies and inefficient workforce as the firm will not be able to hire skilled workforce(Kerzner, 2010). To bridge the gap management have to source funds to support the operations of the corporation. The types of sources of finances can be categorized into long and short term of finances(Wilson, 2011). Long term sources of finance are those finances that are needed in the long thus they are usually for enhancing the expansion of the business thus for example opening new branches, and they usually cover a period over year(Patton, 2012). Short term finances are those that are needed to fund the everyday expenses of a corporation thus it smoothen the operations of the business(Rajan, 2011). The business can use retained earnings, bank credit thus loans and overdraft, debt factoring,

disposal of assets, and government grants as sources of reducing the funding gap(Brook, 2012).

### **2.2.1 Retained earnings**

According to (Ryan, 2010), retained earnings are the fraction of net income that is induced back to the business rather than paid out as shareholders dividends. (Mc Laughlin, 2012) cited that retained earnings permit the corporation to both, “bear crisis and embrace new opportunities”. (Barry, 2010) highlighted that making profit is a way to enhance a corporation’s resource base. However, profits are deemed to be the return on the risk accepted by investors hence they should be distributed to shareholders (Atanasova & Wilson, 2011)(Carlos, 2010). In addition, (Goodman, 2011) highlighted that profits should benefit the shareholders hence they cannot be retained by the business as capital. Some corporations are not for profit making they are viewed as being labour intensive, not capital intensive (Amedu, 2012)(Salamon & Geller, 2010), and they are rarely expected to make profit (Mc Laughlin, 2012).

The prior authorities had different views relating to use of retained earnings as a financing tool that can be used for bridging the funding gap hence the research addressed that issue.

### **2.2.2 Bank loans and overdrafts**

(Aghasi, 2012) articulated that corporations can raise finances through applying for bank loans and overdraft agreements. (Harvey, 2010)(Hopkins, 2010) Stated that bank overdrafts and loans are the cheapest sources of finance as the interest on the loans are tax deductible hence the borrower can plan on the repayment method. However, (Edelman, 2012) argued that the payments of a bank overdraft is paid on demand hence this will have negative impact on the cashflows of the corporation. (Adjapong & Afrifa, 2016)(Kerzner, 2010) Highlighted

that to access the loan or bank overdraft the corporation has to pledge collateral hence the business risk losing its assets if they fail to repay the loan.(Jarmin, 2011)(Kashyap, 2010)Stated that though loans help with the much needed working, high interests charged by the lenders erode the revenue of corporations hence loans does not help to cover the funding gap. The research will focus on the effects of overdrafts and bank loans on funding gap of parastatals.

### **2.2.3 Debt factoring**

Debt factoring is when the corporation sells its trade receivables at a discount to a factor and the factoring company will collect the debt(Abuzayed, 2012). This improves the cash inflows of the corporation as the factor pays the corporation(Barry, 2010). It also reduces the costs to be incurred for debt collection hence the funds can be used in a more productive manner(Jarmin, 2011). However this can dent the image of the corporation hence low sales. It also reduces the ability of the corporation to access funding from other sources(Modigliani & Perott, 2011)(Mylene, 2012). (Kerzner, 2010)Stated that the debt is sold at a discount hence the corporation will suffer a loss. (Colombelli, 2010)(Edelman, 2012)(Hopkins, 2010)cited that debt factoring does not improve the working capital of the corporation since the debt factoring will reduce the trade receivables and increase the cash available thus offsets each other. This research will focus on the effects of debt factoring on working capital of SMEDCO.

### **2.2.4 Assets disposal**

The business can dispose some of its idle or excess fixed assets to finance its day to day operations(Friebel & Heinz, 2014). The retention of excess assets allows the corporation to recognize cash from the sale which will be reinvested to fund the everyday operations of the organisation(Drzensky & Heinz, 2015). (Clancy & Román, 2014)Stated that disposal of idle

or peripheral assets helps the corporation to focus more on its operations. However, (Mutambanadzo, et al., 2013) argued that when assets are disposed of the benefits that were accruing to the corporation from the use of assets will be no more. (Muñoz-Bullón & Sánchez-Bueno, 2010) cited that some assets may prove to be inefficient in the short run but efficient in the long run when the business grows. (Wilson, 2011) (Sitlington & Marshall, 2011) stated that the proceeds received from the sale of assets are usually used to buy new equipment to replace the disposed ones hence does not have any impact on the working capital of the corporation.

Considering the various views of the above authorities, there seem to be no consensus as to the effects of assets disposal on funding gap hence the current study will seek to answer if the disposal of assets will reduce the funding gap of SMEDCO.

### **2.2.5 Government grants**

Government grant is a financial gift to an eligible grantee from the federal (Abuzayed, 2012). (Adjapong & Afrifa, 2016) stated that grants from the government are to provide the much needed working capital to firms facing financial challenges. (Aghasi, 2012) argued that the grants help to finance corporations they reduce the financial stress of corporations since the corporation is not expected to pay back. However, (Dandira, 2011), argued that business should not rely on grants as they are not reliable. (Barry, 2010) (Atanasova & Wilson, 2011) went on further to say that government grants come with complex regulations on how to use the money and this may require expert advice of an attorney or accountant which will increase the corporation costs. (Edelman, 2012) (Amarjit & Nahum, 2013) argued that some of the grants are payable back to the government hence this can strain the growth of the corporation. As stated above by various authorities there are different views on the effects of

government grants on working capital hence this research will focus on the effects of government grants on working capital of SMEDCO.

### **2.3 Going concern**

The assumption of going concern is a basic principle that should be considered during the preparation of financial statements(Adeyemi & Uadiale, 2011). With the going concern principle the corporation is considered to continue operations for the foreseeable future thus there is no intention to liquidate or ceasing trade(Akenbor & Ibanichucka, 2012).If the going concern assumption is appropriate the corporation should record its assets and liabilities with a view that the corporation will realise its assets, access refinancing and pay its liabilities when they fall due during the normal course of operations. Corporations are expected to prepare their financial statement on going concern basis unless the corporation has planned to liquidate or they are other forces that may push the corporation to liquidate(Mgbame, et al., 2012). According to ISA 570, the auditor should gather sufficient and appropriate evidence as to ascertain if the corporation is to continue in existence for the foreseeable future. If the audit evidence shows that the corporation is no longer a going concern the auditor will issue modified a modified opinion.(Kuruppu, et al., 2012) argued that determination of going concern is subjective. (Modugu, et al., 2012) asserted that auditors are not prophets who foresee the future but they use the available information from the corporation to assess its going concern.

#### **2.3.1 Effects of going concern on funding**

If the going-concern of a corporation is doubtful, it will adversely affect the corporation as it will be restricted from accessing funding from any other sources(Feldmann & Read, 2013).(Mgbame, et al., 2012) asserted that the doubtful going concern have a negative impact on the stock valuation of the corporation shares thus a reduction in the working capital from issuing of stock and this can even speed up the corporation's failure.On the other

hand,(Modugu, et al., 2012) , stated that auditors have a tendency of issuing a unmodified report as to whether the corporation is a going concern or not as the modified report will lead to liquidation and the firm will lose its customer.(Adela, 2010)cited that the existence of one or more conditions or events do not always imply that a material uncertainty exists. Some of the uncertain conditions or events can be mitigated(Akpotu, et al., 2013). For instance, the consequence of a corporation defaulting repayments to creditors may be offset by management's strategy to retain sufficient cash flows by other means, such as deferring loan repayments, disposing off of assets or attaining supplementary capital.(Modugu, et al., 2012) highlighted that going concern assumption is considered to promote corporate stability as it enhances management to plan the future of the corporation. It is a yardstick tool to measure the competence of the management and have an insignificant effect on the accessing of funding by the corporation(Enyi, et al., n.d.). At SMEDCO, the effects of going concern on funding gap will be looked at as the research unfolds.

#### **2.4 Relationship between funding gap and employee turnover**

Employee turnover,(Sitlington & Marshal, 2011), is where by employees volunteer to terminate their membership from corporations. (Muñoz-Bullon & Sanchez-Bueno, 2010)proposed that employee turnover is the rate of employees' departure from the corporation in a given period but before the expected end of their employee contracts(Sitlington & Marshall, 2011).It is the proportion of employees leaving a company in a defined period. (Anon., 2012)opine that it is the difference between the number of employees exiting the organisation and the entrance of the new ones to the corporation. Staff turnover is the movement of employees in and out of the corporation(Shook & Roth, 2011).

##### **2.4.1 Effects working capital on rate of turnover**

(Drzensky & Heinz, 2015)Stated that shortage of working capital has seen corporations letting go of their valuable employees as the corporation will be avoiding a high wage bill.

With little working capital a corporation cannot grow hence there is little incentive for employees to remain at the corporation as they will not see themselves progressing to better positions within the hierarchy(Friebel & Heinz, 2014). Corporations with working capital problems have got a blurred vision of their future hence this affect the rate of turnover as the corporation will not be able to offer job security for its employees for the foreseeable future(Jung, 2012). (Clancy & Román, 2014)Argued that the lower the activity undertaken by the corporation, the lower corporation offers job satisfaction to its employees hence the employees will leave corporation for new opportunities in other companies.Though there are many causes for staff turnover in an organization, all of those do not have negative impact on well being of an organization.(Lars, et al., 2015) argued that some employees leave the organisation not because the business is offering little incentive in their well being, but because of some other factors for example sickness and proximity to families. (Huttunen & Salvanes, 2011) highlighted that some employees are forced to leave by the corporation because of their behaviour thus dismal because of gross insubordination of misconduct. (Hallock, et al., 2012)Asserted that the age of the employees have got an impact on the rate of turnover as some of the employees may terminate their contracts because of old age and some may be forced to terminate their contracts as their healthy grow weary. Henceforth, corporations should be able to differentiate voluntary and involuntary turnover.

Voluntary turnover is defined as termination of contracts that is initiated by the staffand the employer have got no control over it whereas involuntary turnover is employer-initiated thus it is decided upon by the management(Huttunen & Salvanes, 2011).Voluntary turnovers are further categorised to functional and dysfunctional turnovers(Sitlington & Marshall, 2011). Functional turnovers are resignation offered by poor performers whilst dysfunctional turnovers are resignations byefficient performers. Management is more concerned about dysfunctional turnover as this impact on the performance of the organisation. Dysfunctional

turnover can be further categorised as avoidable (low salaries and poor working conditions) and unavoidable (death and sickness) turnovers(Jung, 2012).

While the authorities provide a various views on the subject however, the matter remains that poor working capital levels affect the rate at which employees desert the company in most parastatals. The research seeks to answer if high rate of turnover at SMEDCO originates from the existing funding gap in the corporation.

#### **2.4.2 Effects of turnover on profitability**

Every corporation tries to maintain a low level of turnover, as it eliminates potential stagnancy and stimulates improvement with the entrance of new human resource(Drzensky & Heinz, 2015). However, high rate of staff turnover is characterised by a workforce with low morale hence poor performance in companies, and this in turn results in increased costs and negative results (Huang & Hooper, 2011). High rate of turnover affects the performance of the corporation as it affects the quality of the products to be offered and the replacement costs will also increase.(Anon., 2012)cited that high turnover can dentthe corporate image and clientele service which provide the competitive edge of the business, thereby hampering the growth and perfomance of the business. It has been noticed that important employees are the ones who always leave as they can find better offers elsewhere and they end up working for competing organisations(Sitlington & Marshall, 2011). However,(Layton & Lambe, 2012)(Sitlington, 2012) , stated that involuntary turnover can be used as tool to reduce costs the corporation terminate some of their employees' contracts, this will reduce the wage bill hence an increase in profits. They further stated that functional turnover helps the corporation in eliminating inefficient workforce hence efficiency is improved which in turn increase profitability of the corporation. On the other hand, (Schmitt, et al., 2012), cited that since the employees resigned are replaced by new workforce turnover does not affect profitability as



the wage bill remain the same. This study will focus on the effects turnover on profitability of SMEDCO.

## **2.5 Relationship between profitability and funding gap**

Working capital is said to be the cash or funds needed by a corporation for its day to day operations (Adjapong & Afrifa, 2016). They further stated that the gap between the expected working capital and the working capital available is called the funding gap. (Garcia-Teruel & Martinez-Solano, 2010) profitability is the ability of a corporation to yield profit. Working capital is the lifeblood of every micro financial institution thus working capital is essentially vital (Pais & Gama, 2015). This is as a result of the argument that without working capital the operations of a firm will come to a halt. However, there is no agreement on the available literature as to whether high or low working capital is the best for the corporations. Owing to the changes of economic environment, management have been looking for ways of being productive with less capital. (Glisovic & Martinez, 2012) assumes that there is a direct relationship between profitability and working capital levels. (Lukkari, 2011) stated that when an a coporation invest optimal level of working capital it will maximise its profit. (Abuzayed, 2012) averred that stated that inducing high level of working capital into the business will lead to profit maximisation as it helps in stimulating the corporation's sales. Enhanced working capital helps to improve clientele base as the corporation can increase time lag of payments by debtors (Tauringana & Afrifa, 2013). They also postulated that the level of working capital is measured by the cash conversion cycle thus the time taken from purchasing of raw materials to the time cash is received from debtors.

(Onaolapo & Kajola, 2010) highlighted that the relationship between profitability and working capital depends on working capital strategy that a firm choose to implement. He further went to say that there are two strategies for working capital which are conservative and aggressive strategy.

However, both high and low levels of working capital have benefits and costs to corporations. (Abuzayed, 2012) investigated that there is a non-linear proportion between working capital management and profitability. (Bana, 2012) argued that although there is a consensus that low level of working capital yields maximum profit, it may result in loss of sales as the corporation fails to meet its demand thereby resulting in lower profitability. Undeniably, several has come to appreciate that they make a considerable investment in their working capital, and that at some point, this investments proves not to be necessary if working capital management can be improved thus this confirms that there is an optimal level of working capital that is needed and beyond that any excess working capital will not yield any profit(Colombelli, 2010).

### **Cash conversion cycle**

It is affirmed that working capital management theory originated from long-established models of cash conversion cycle(Nobanee, et al., 2011). It is important to notice how the corporation organise its working capital.(Raheman, et al., 2010) asserted that cash conversion cycle is used to measure the between cash payment for the inputs and the time cash is received from debtors. With the same light, they stated that relative to changes in liquidity management, cash conversion cyclemerge both data from the balance sheet and income statement to assess liquidity with the dimension of time.Abuzayed(2012) cash conversion cycleshows the time lag between payments of suppliers and the time the corporation receives cash for debtors.(Adjapong & Afrifa, 2016)define cash cycle as the period between disbursements and cash collection.

#### **2.5.1 Aggressive strategy**

Aggressive strategy of working capital is where by the corporation invest very little in working capital thus a reduction in inventory levels and accounts receivables(Bana,

2012)(Mwaniki, 2012). They further went on to say MFIs use this strategy by way of revolving funds where they reinvest the cash paid by clients to working capital thus the cash will be rotated which in turn increase profitability and this is usually characterised by less days for repayments of loans. There is a reduction in stock holding and theft and also reduction in debtors' payment period improves the corporation cashflows(Shaista, 2015). However,(Nobanee, et al., 2011)(Gill & Biger, 2013) this will negatively affect the clientele base as the clients will look for corporations with lucrative credit facilities hence a reduction in the profit levels.

### **2.5.2 Conservative strategy**

Conservative strategy is associated with high levels of working capital(Yazdanfar & Öhman, 2014). It is aimed at enhancing sales by increasing inventories, reduction in lead time and trade receivables which in turn will increase the profit of the corporation. An increase in inventory will reduce disruptions and reduce the risk of running out of stock. Increase in trade receivables will boost sales as it gives clients some time to pay(Amarjit & Nahum, 2013). (Wasiuzzaman, 2015) stated that MFIs will increase the credit time and grace periods for their loans hence attracting more clients. However, (Karadagli, 2012), stated that the increase in trade payables will affect the cash inflows of the corporation hence this may lead to bankruptcy of the corporation. (Ellis, 2011) argued that the strategy violates the principle of cash conversion cycle hence the corporation will face liquidity challenges.

Various authors have proposed contradicting views as to the relationship that exist between funding and profitability hence this study seeks to evaluate the effects of working capital to the profitability of SMEDCO.

## **Summary**

This chapter focused on the views of other authors on the funding models which can be used to bridge the funding gap, going concern effects on working capital, effects of funding gap on turnover, as well as the reasons to why parastatals are failing to attain external funding. The next chapter will deal with the methodology.

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.0 Introduction**

The chapter gives a brief explanation of the research design used to gather data on the impact of funding gap on parastatals. The methodology outlines the research design, population, sample size, data collection, data presentation, research instruments and the analysis of the data. It also examined the advantages and disadvantages of each method used to collect data and also the justification for the data collection methods used were provided.

### **3.1 Research design**

A research design is a plan that maps the research by providing the strategies and the techniques that can be used to gather the essential data (Jaikumarm, 2014). According to (Kowalczyk, 2015), research design is a master plan that directs research from its commencement to the conclusion and it comprises the ways for gathering, evaluating and deducing the available facts. The case study design is a study of an exact event rather than a broad statistical investigation that is employed to constrict the area of the study into a narrow researchable field. This research employs the use of mixed descriptive case study, correlation and explanatory so as to incorporate both qualitative and quantitative research designs; this was motivated by the nature, purpose and context of the research questions.

### **3.1.1 Descriptive Case Study Research**

The research incorporated the use of a descriptive and correlation research designs. The descriptive research design was used as it permits the use of both the quantitative and qualitative analysis of data. According to (Cresswell, 2015), qualitative research is intended to assist the researchers to appreciate people, social and the cultural environment surrounding them. The researcher used the qualitative method in collecting the data as to why SMEDCO is failing to attain external funding and if there is any other ways that the corporation can use to curb the funding gap. The researcher used questionnaires and interviews to investigate the opinions of the respondents thus this enhances the reliability of the data as the answers from questionnaires corresponds the responses from the interviews. (Furukwa, 2011) cited that the quantitative method helps in linking data of the independent (funding gap) and the dependent (financial performance) variables to find out if a linear or non linear relationship exist. The researcher used quantitative research method to examine the relationships that exist between turnover, profitability and funding gap of SMEDCO. The research method was also employed to examine if SMEDCO is still a going. (Hossain, 2012) posits that a descriptive case study research focuses on obtaining raw facts and figures aiming at establishing the current nature of circumstances at the period of the study. It also allowed the utilisation of various data collection methods during the study as it provides a precise explanation of the variables of the problem at hand (Widdowson, 2011) hence this enhances the reliability of the data collected. The approach leads to a more accurate profile of events undertaken by SMEDCO departments. (William, 2011) highlighted that the use of a case study when targeting a small population provides a well detailed information about the organisation and this also allows for a discovery of facts when focusing on the questions such as “why, what and how”. The correlation research design was used in this research to find the relationships that exist between funding gap, rate of turnover and profitability of SMEDCO as supported

by (Kumar, 2011) who cited that the correlation study is used to establish a relationship, association or interdependence between variables.

However(Vissak, 2010; Hossain, 2012), stated that the mixed case study method is time consuming since the interviewee may be tied up with work hence failure to answer all the questions.The researcher used the personal and over the phone interviews to reduce time wastage.

### **3.2 Study population**

The study population refers to the aggregate total of the elements under the study (Cresswell, 2015). Accessible population is the selected elements that will represent the overall population to come about with a conclusion of the entire population(Bryman, 2012). The research will focus on 5 departments of SMEDCO thus the finance, operations, human resource, risk management and internal audit as well as the management of the corporation. SMEDCO have got 49 employees country wide and this study targets 33 employees stationed at SMEDCO head office, SMEDCO Harare branch and SMEDCO Gweru branch. This research will use a sample of 33 employees as the researcher have got no time and finance to travel around all the branches to carry a census.

### **3.3 Sample size and design**

A sample is a part that represents the fully defined population(Bryman, 2012). Sampling is more favored than a census in a setting where time is a constraint(Pacho, 2015). It facilitates the management of interviews and the questionnaires as it is not feasible for a single person to carry out a census on 49 employees hence this administer the use of a sample. The researcher used the purposively sampling to pick the participants of this study thus the researcher has the right to choose the participants considering the ability of the respondents to answer the questionnaires(Barker & Edward, 2013). Due to the lack of time and finance to

visit SMEDCO branches in Bindura, Mutare, Masvingo and Bulawayo; the researcher concentrated on 2 branches and the head office hence this reduced the sample size to 33 participants which represent 67.3% of the total population. The greater the sample sizes the more accurate and reliable the findings are (Denzin & Liconco, 2011). (Kumar, 2011) stated that a sample size above 50% yields more accurate results.

**Table 3.3.1 Population and sample size**

<b>Departments</b>	<b>Population size</b>	<b>Sample size</b>	<b>% of Total</b>
<b>Finance</b>	16	12	75
<b>Operations</b>	10	6	60
<b>Human resource</b>	2	2	100
<b>Risk Management</b>	4	4	100
<b>Internal Audit</b>	2	2	100
<b>Management</b>	8	4	100
<b>Other departments</b>	7	3	42.9
<b>Total</b>	49	33	67.3

### **3.4 Sampling procedures**

Purposeful sampling allows researcher to choose the respondents who can answer the study questions thus information rich participants which helps with in-depth information of the study (Widdowson, 2011). The researcher also used convenient sampling to pick the branches that is the branches which are within the reach of the student (Yount, 2010) as the researcher had limited time to travel to all the SMEDCO branches. The researcher picked the head office, Harare branch and Gweru branch so as to save time and reduce the transport costs. The

researcher grouped the participants by their departments and a sample was drawn from each group.

### **3.5 Data Sources**

#### **3.5.1 Primary Data**

Primary data is the information collected from firsthand experiences (Brannen & Nilsen, 2011). The data collected by the researcher gives the true picture of the activities on the ground. The author used questionnaires and interviews to gather data and this made it possible for the researcher to gather in-depth information about the organisation since researcher had direct control over the collection of data thus the questionnaires and the interviews were channelled to answer the specific issues of the study. The data collected focused on specific aspects hence the researcher collected data needed for the research only. Primary data allows for triangulation thus data collected by use of interviews can be compared to the data from questionnaires hence the researcher can compare if the data is corresponding to each other and evaluate if the data is reliable.

#### **3.5.2 Secondary Data**

Data collected from written sources is called secondary data (Kumar, 2011). He further stated when the data for the research has already been gathered by others what will be left the researcher to do is to analyse the data. This research used the financial statements and working capital budgets of SMEDCO to compare the trends of profit of the corporation and also to see the cause and effect of turnover and funding gap on profitability of the corporation.

### **3.6 Data collection instruments**

Data collection instruments are the techniques that are used to gather data thus interviews, observations and questionnaires (Barker & Edward, 2013). These techniques enable the researcher to gather information that is relevant to the study and to give informed



recommendations and solutions to the problems at hand. The current study incorporated both interviews and questionnaires in gathering data.

### **3.6.1 Interviews**

An interview is a face to face conversation where the interviewer asks questions and the interviewee answering thus this enables the interviewer to get information from the interviewee (Vissak, 2010). (Cresswell, 2015) cited that an interview is an intentional conversation between two participants to share information. The researcher employed the use of interviews as an approach of collecting data thus this proved efficient as interviews can be officially organised or can be conducted off the books thus informal conversations. An interview is a professional way of gathering information thus they are held to complement data gathered by use of questionnaires. Interviews help to clarify some information which questionnaires have failed to address (Kowalczyk, 2015 ). The researcher conducted a face to face interview on five SMEDCO employees. The interviews were a success as the officials welcomed the questions than responding to a questionnaire. Unstructured interviews were also conducted and this gave room to the participants to reply in the language they felt free to use. According to (Pacho, 2015), this enables researcher to get a deep insight of the subject under scrutiny since the unstructured interviews eliminates the language barrier.

### **3.6.2 Questionnaires**

So as to overcome the errors and bias posed by the character and skills of the interviewee in tackling interview questions, (Bryman, 2012), questionnaires are engaged so as to enhance trustworthiness of the study and to address the aforementioned limitations of interviews. The management of SMEDCO are usually occupied hence questionnaires helped since the participants managed to answer the questions at their own spare time. The questionnaire helps the researcher to exhaust all the questions that needed to be responded to. Questionnaires are a cheaper method of collecting data. They also provide a base for comparison since the

participants will respond to a similar question. The participants did not provide their names; hence this resulted in honest answers as there was little fear of victimisation by the authorities. (Pacho, 2015) in support of this highlighted that nameless questionnaires encourages honest responses. There are two types of questionnaires thus the open ended and the closed ended questionnaires. This research used the closed ended questionnaires only.

### 3.6.2.1 Closed ended questionnaires

According to (kumar, 2013) closed questions are those questions which limit free opinions from participants. The researcher used closed questionnaires and the questionnaires were short and precise so as to reduce time wastage as the participants take much time dwelling on one question if the questionnaires are open ended. Closed ended questions are those questions which can be interpreted easily and they leave a room for comparison. To answer the questionnaires the respondents used a likert scale.

### 3.6.3 Likert scale

The Likert scale was used by the researcher as a means to explore the data from the limited group of participants targeted by the researcher. The respondents are requested to specify their level of accord to a certain statement by means of an ordinal scale (Remenyi, 2010). The participants showed their answers on a likert scale which the author designed with the ranking system for every answer as shown below:

**Table 3.2 Likert scale**

Item	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Points	5	4	3	2	1

**Source: Remenyi (2010)**

Although the likert scale does not oblige the participants to provide clarity on their responses of yes or no, it does not restrain the respondents to stand ground on a particular point.

### **3.7 Reliability and validity of instruments**

Reliability is the measure of the trustworthiness of the data thus the liberation of data from bias and errors (Mohammad, 2013). He further stated that reliability is a key requirement for all the process of a research. The researcher used both interviews and questionnaires in conducting the study thus the interviews complemented the non verbal communication (Denzin & Liconco, 2011). Questions posed were clearly set with the goal of getting the essential information for the study. Where there was need for clarity on both the interviews and questionnaires the researcher explained to the respondents in simple terms so that they could give objective information. The extent of the reliability and validity of the data collected was high as the research utilized more than one instrument so as to offset the weaknesses of one instrument by the other instruments. The researcher managed to clarify the questionnaires to the respondents so as to enhance reliability. The sample size used was more than 50% hence guarantees the reliability and validity of the data collected.

### **3.8 Data presentation and analysis**

(Guba, 2011) highlighted that the analysis of data incorporates grouping, examining, organising, re-addressing and processing raw data to facts so as to meet the researcher's intentions. Some data that was collected by the researcher was presented by use of tables, graphs and charts with the aid of the Microsoft excel and SPSS application thus to ease the interpretation and analysis of the facts. (Mohammad, 2013) Stated that data should be processed so that it efficiently conveys information and in detail. Tables were used to illustrate data in a more comprehensible manner. The graphs and charts were used to summarise the information gathered. The research also incorporated the use of measures of central tendency thus mean, mode and standard deviation for analysis of the data. Section 4.10 used funding gap (X) as the independent variable with turnover being the dependent variable (Y) for regression analysis. Part 4.11 used Turnover (X) as the independent variable

and profitability (Y) as the dependent variable with section 4.12 applying the funding gap (X) as independent and profitability (X) as the dependent variable. The workings to find correlation variation (r) were automatically processed by the SPSS software.

### **Summary**

This section exhibits the methods that were incorporated in addressing the objectives of the research. The methodology was planned in such a manner that the viability and reliability of the data gathered was guaranteed. The subsequent chapter will focus on scrutinising and presenting the research findings.

## CHAPTER 4: DATA PRESENTATION AND ANALYSIS

### 4.0 Introduction

This chapter discuss the results from the field thus the research findings. The chapter will link the research objective from chapter one with the discoveries from the field. Tables, pie charts and bar graphs will be used for presentation and analysis of data as well as statistical computations.

### 4.1 Analysis of response rate

Response rate can be defined as a fraction of the respondents who answered the questionnaires against the expected number of participants who should have answered(Kumar, 2011). It establish the probability of bias by participants, thus as the rate increases bias is minimised.

#### 4.1.1 Questionnaire response rate

The researcher had a sample size of 33 respondents from which 31 participants managed to complete and return the questionnaires, thus recording a response rate of 94% against the expected response rate of 80%. The response rate of 94% can be used to represent the total population as supported by Bryman(2012) who stated that response rate above 50% yields reliable results hence the 94% isadequate to stand for the entire sample size as shown below.The other two participants failed to respond to the questionnaires as they were off duty.

**Table 4.1**Questionnaire response rate

<b>Departments</b>	<b>Target respondents</b>	<b>Actual respondents</b>	<b>Response rate</b>
<b>Finance</b>	12	12	100

<b>Operations</b>	6	6	100
<b>Human resource</b>	2	2	100
<b>Risk Management</b>	4	3	75
<b>Internal Audit</b>	2	2	100
<b>Management</b>	4	3	75
<b>Other departments</b>	3	3	100
<b>Total</b>	33	31	94

(Source: primary data)

## 4.2 Background information

### 4.2.1 Duration in the organization

The respondents were asked to stipulate the time they have spent working for the corporation as this will help the researcher to assess how the respondents have been involved with the corporation activities. Employees who have been with the corporation for a long time have got a better knowhow about the operations of the business and this helps the researcher to get in-depth information about the corporation's dealings and how the funding gap have affected its daily activities. The table below analyse the time spent by the employee working for SMEDCO.

**The table 4.2 illustrates employee duration with the corporation**

	0-3 years	3-5 years	5-10 years	+10years	Total
No of respondents	3	10	13	5	31
% outcome	10%	32%	42%	16%	100%

The table above illustrates that, 3/31(10%) of the respondents have been employed for 3 years and below, 10/31(32%) have laboured for the corporation for 3-5 years only, 13/31 (42%) have been with the corporation for 5-10years and 5/31 (16%) have been occupied by SMEDCO for the past 10 years and above. The information above shows that 58% of the employees have worked for 5years or more at SMEDCO hence the staff have strong background information of how the funding gap have affected the operations of the corporation as well as its profitability. Cresswell(2015) cited that the time spent by the employee with the organisation plays a vital role when undertaking a research as it guarantees the reliability and validity of the data.

### 4.3 Level of academic qualifications

Academic qualification enhances the understanding of the respondents hence it is considered since it helps the respondents to give answers relating to the questions asked. It is a yardstick tool that confirms the level of the respondents in comprehending the questions used for the study. Below is a table that shows an analysis of the academic qualifications of SMEDCO employees.

**Table 4.3 illustrates level of academic qualifications**

	A Level	Diploma	Degree	Masters	Others	Total
No of respondents	4	3	20	2	2	31
% outcome	13	10	65	6	6	100%

Table above shows that 4/31(13%) have got A level, 3/31 (10%) hold diplomas, 20/31(65%) are holders of degrees, 2/31(6%) have masters while 2/31(6%) have got ACCA qualification. The results show that 27/31 (87%) of the respondents are competent as they have the qualifications required for the posts they hold. Aiyagari (2011) stressed that when considering a sample for a research the respondents chosen should consist of individuals who are

qualified and well vested with the current study hence the respondents of this research were qualified for their positions and this enhanced the reliability of the data collected.

#### 4.4 Do the following factors hinder SMEDCO from accessing external funding?

##### 4.4.1 Liquidity position

Table 4.4.1 illustrates whether liquidity position affect accessibility to external funding by SMEDCO

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
Respondents	23	5	3	0	0	31

Fig 4.4.1 illustrates whether liquidity position affect accessibility to external funding by SMEDCO

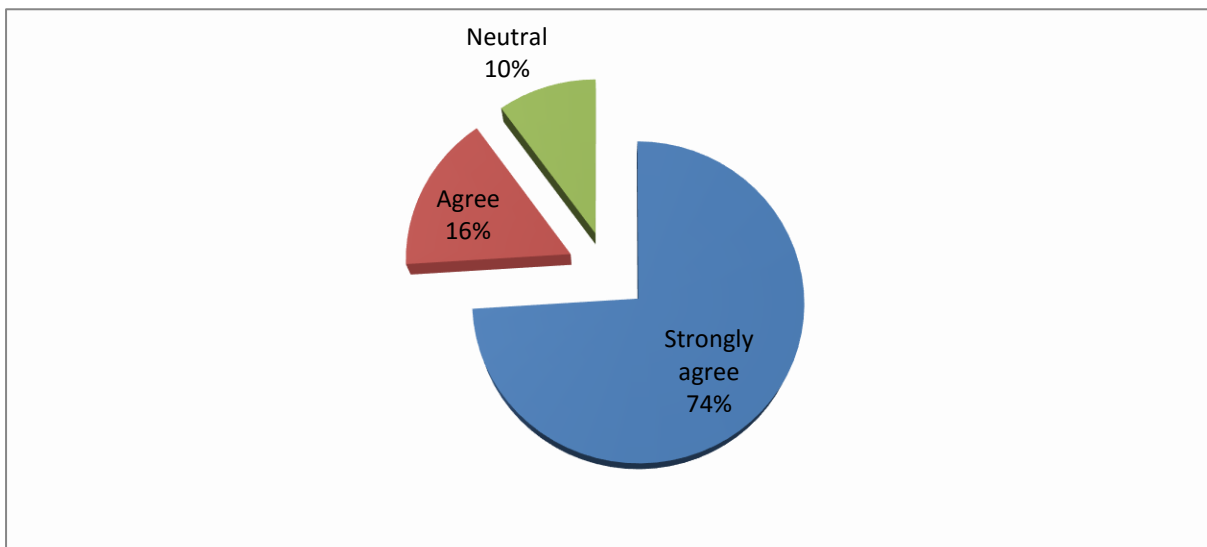


Fig 4.4.1 shows that 23/31 (74%) strongly agrees that liquidity problems affect the accessibility of external funding whilst 5/31(16%) agree and 3/31(10%) were not sure. Neither of the respondents disagreed 0/31(0%) nor strongly disagree 0/31 (0%) as to the effects of liquidity on accessibility of external funding to SMEDCO. The results show that a mode of 28/31(90%) of the respondents agree that the liquidity position of SMEDCO affects its accessibility to external funding which means that liquidity position have got an impact on



firm's accessibility to external funding. This correspond to the views of(Chang & Velasco, 2010) who cited that illiquid corporations face difficulties in meeting their obligations when they fall due hence they are a credit risk thus its difficult for illiquid corporations to attain funds from financial institutions as they do not guarantee paying back the loans.The 10% of the respondents were neutral to the subject thus they view liquid position to have nothing to do with firm accessibility to external funding. This was supported by (Yazdanfar & Öhman, 2014) who cited that liquidity position is not considered by financial institutions when disbursing loans but the authenticity of the project to be funded by the borrowed funds.

#### 4.4.2 Sound financial management

**Table 4.4.2 illustrates whether financial management affect accessibility to external funding by SMEDCO**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
Respondents	10	10	0	7	4	31
% outcome	32	32	0	23	13	100%

Table 4.4.2 indicates that 10 of 31 participants strongly agree thus 32% of the total respondents, 10/31(32%) agree, 0/31(0%) were neutral,whilst 7/31(23%) disagree to the matter and the remaining 4/31(13%) strongly disagree that poor financial management have a bearing on accessibility of external funding by SMEDCO. A mode of 20/31(64%) of the total respondents agreed that financial management affect the corporation's accessibility to external funding supported by (Dandira, 2011)(Emeh, 2012) who highlighted that financial institutions considers the ability and discipline of management to effectively allocate resources. They further stated that sound management practices plays a vital role to the success of a business hence lenders considers the management system as this guarantees the ability of the corporation to pay back the received funds. Of the 31 respondents 11

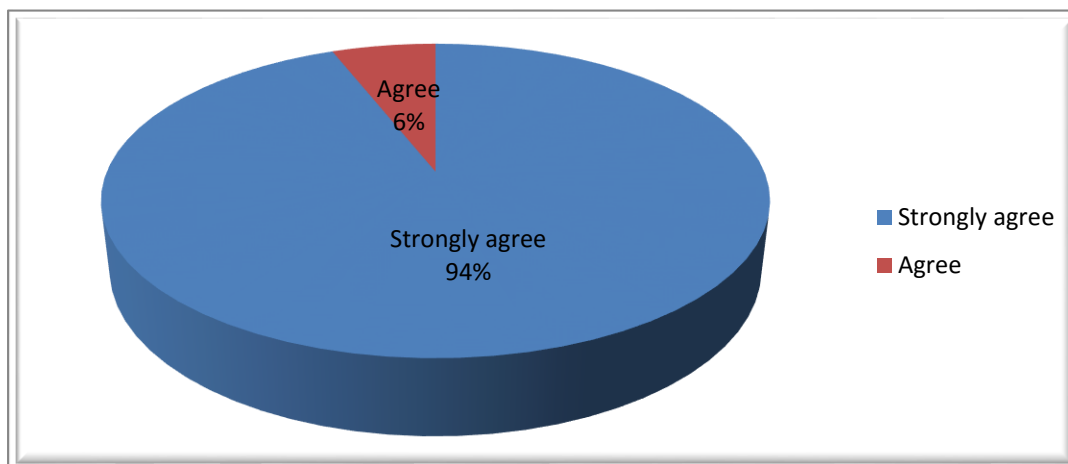
representing 11/31(36%) disagree on the subject that poor financial management affect the firm's accessibility to external funding thus motioning (Dandira, 2011) who highlighted that the performance of management is subjectively measured and sometimes even poor managers produce profits hence profitability cannot be regarded as a measure of sound financial management. He further stated that financial management does not affect the accessibility of corporations to external funding as financial institutions find it difficult to measure the effectiveness of financial management of a corporation. This research concluded that poor financial management have got a negative impact on firm's accessibility to external funding since a mode 20/31(64%) of the respondents agreed to the subject.

#### 4.4.3 Lender- borrower relationship

**Table 4.4.3 illustrates whether Lender-borrower relationship affect accessibility to external funding by SMEDCO**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
Respondents	29	2	0	0	0	31

**Fig 4.4.3 illustrates whether Lender-borrower relationship affect accessibility to external funding by SMEDCO**



Of the total respondents 29/31(94%) strongly agreed, 3/31(6%) agreeing whilst 0/31(0%), were neutral with 0/31(0%) agreeing and 0/31(0%) strongly disagreeing. A mode of 31/31(100%) was recorded which means that all the respondents agreed that the lender-borrower relationship have got an impact on the firm's accessibility to funding. This implies that lender-borrower relationship is considered by financial institutions when disbursing loans.(Rajan, 2011)(Edelman, 2012) supports the views of the respondents by stating that the type of the relationship the two firms had built in the past dealings with each other plays a pivotal role as to whether the lender should disburse loans to the borrower or not thus if the relationship is good it smoothens the process for the borrower to access funding.

#### 4.4.4 Previous history of borrowing

**Table 4.4.4 illustrates whether previous history of borrowing affect accessibility to external funding by SMEDCO**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
Respondents	13	10	3	3	2	31
% outcome	42	32	10	10	6	100%

Table 4.4.4 highlights that 13/31(42%) strongly agree to the subject, 10/31(32%) agree, 3/31(10%) are not sure, 3/31(10%) disagree and 2/31(6%) strongly disagree that previous history of borrowing have an impact on the accessibility to external funding of SMEDCO. According to the minutes of 2015 annual general meeting, SMEDCO defaulted the payment of interest on loan to NSSA of \$60 000 and this will affect the relationship between the corporations hence NSSA may find it difficult to fund SMEDCO in the future. Since a mode of 23/31(72%) of the respondents agreed to the subject, this implies that previous history of borrowing affect accessibility to external funding and this was supported by (Abuzayed, 2012)(Charitou, et al., 2010) who cited that the reputation of the corporation with previous

lenders have an impact on the firm’s accessibility to external funding. They further went on to say that its risk to fund a corporation with a defaulting reputation.10% of the respondents were neutral as to whether previous history of borrowing affects firm’s accessibility to external funding or not. This was motioned by (Dandira, 2011) who highlighted that the previous history of borrowing is not a matter to consider when disbursing to firms but management’s integrity and values since they are the ones who make decisions on payments to make. Only 16% of the respondents disagreed that previous history of borrowing affect the firm’s accessibility to external and this was approved by(Edelman, 2012) who cited that the rate of defaulting of borrowers should not be measured by their history of borrowing, but the financial institutions should consider the macro and micro economic factors affecting the economy as this affect the operations of the business.

#### 4.4.5 Inflation

**Table 4.4.5 illustrates whether inflation affect accessibility to external funding by SMEDCO**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
Respondents	20	9	0	3	0	31
% outcome	65	29	0	6	0	100%

The table above shows that 20/31(65%) strongly agree to matter, whilst 9/31(29%) agree, 0/31(0%) neutral, 3/31(6%) disagree and 0/31(0%) strongly disagreeing to the impact of inflation on SMEDCO’s accessibility to external funding. The results recorded that a mode29/31(94%) agrees to the effects of inflation on funding gap thus this entails that inflation can hinder corporations from accessing external funding. In support of the subject,(Boyd, et al., 2010), pointed out that the rise in inflation rate affects the resource allocation by financial institutions thus this will lead to rationing of credit facilities. Only 6%

disagreed to effects of inflation thus supporting (Kairiza, 2012) who stated that inflation does not affect disbursements but it increases borrowing costs(interests charged) to cover the inflation gap.

#### 4.4.6 Political instability

**Table 4.4.6 Analysis of political instability as a factor affecting SMEDCO’s accessibility to external funding**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	total
Respondents	25	6	0	0	0	31

**Fig 4.4.6 Analysis of political instability as a factor affecting SMEDCO’s accessibility to external funding**

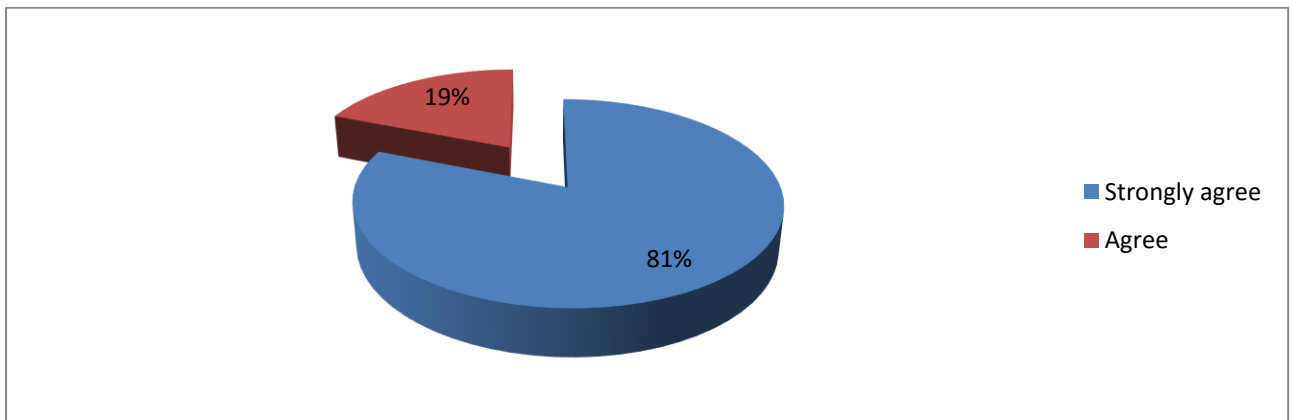


Table 4.4.6 shows that 25/31(81%) strongly agrees, 6/31(19%) agrees, with 0/31(0%) neutral, whilst 0/31(0%) disagreeing and 0/31(0%) strongly disagreeing to the effects of political instability on accessibility of SMEDCO to external funding. A mode of 31/31(100%) respondents agreed to effects of political instability on firm’s accessibility to external funding with the highest frequency of 25 respondents strongly agreeing to the subject. The information above implies that political instability has a negative impact on funding of firms,

this was also supported by (Aisen & Veiga, 2010)(Brada, et al., 2014) who stated that political instability should be recognised as a driver of micro economic factors thus it leads to high inflation, high unemployment and less cash circulating in the country thus less credit facilities.

#### 4.4.7 Collateral security

**Table 4.4.7 illustrates if collateral security affect accessibility to external funding by SMEDCO**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Respondents	16	15	0	0	0	31
% outcome	52	48	0	0	0	100%

The table above illustrates that 16/31(52%) strongly agreed, with 15/31(48%) agreeing and 0/31(0%) were neutral, disagreeing or strongly disagreeing. A mode of 31/31(100%) respondents agreed which means that collateral is a much needed resource for a firm to access external funding. This study has come to conclude that collateral security is a factor to consider when a firm is applying for a loan since all the respondents agreed to the matter. According to SMEDCO recapitalisation paper fixed assets pledged as collateral are 69.5% of total assets as at 31 December 2015 and as a result, the Corporation does not have the capacity to raise enough funds to address perennial capital challenges.(Abuzayed, 2012) (Athanasoglou, et al., 2012)in support of the respondents cited that financial institutions need security that the firm will pay back and in case the firm fails to pay back the loan, the lender will use the assets to counter balance the loan.

#### 4.5 Can SMEDCO engage the following sources of finance to reduce the funding gap?

##### 4.5.1 Retained earnings

**Table 4.5.1 illustrates if SMEDCO can use retained earnings to reduce funding gap**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Respondents	0	1	15	12	3	31

**Fig 4.5.1 illustrates if SMEDCO can use retained earnings to reduce funding gap**

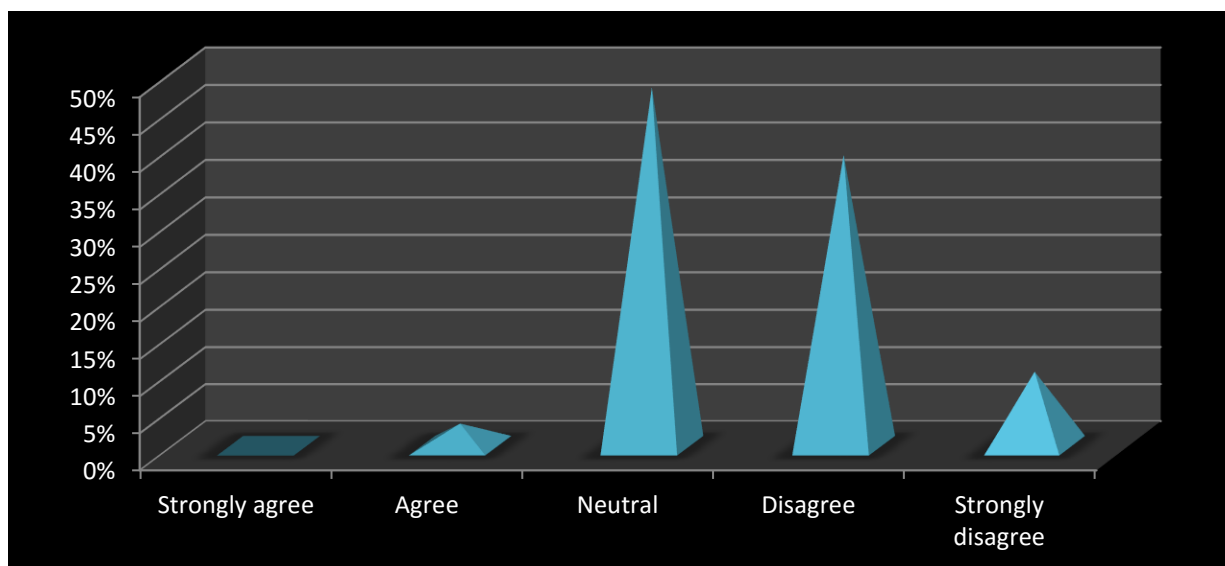


Table 4.5.1 point out that 0/31 (0%) strongly agreed, 1/31(3%) agreed whilst 15/31 (48%) were uncertain, 12/31 (39%) disagreed and 3/31 (10%) strongly disagreed that retained profit can be recapitalised to serve as working capital. An evaluation of the above information show that the disapproval part recorded the highest frequency (mode) of 15/31 (49%) thus this proves that retained earnings can barely be used as working. According to SMEDCO financial statements as at 31 December 2015, the corporation recorded a loss of \$369 408 hence there were no profits to be retained for the year 2016. In support of the respondents, (Atanasova & Wilson, 2011) stated that profits should not be retained back to the business; they are a reward to capital participants for the risk they have accepted hence they should be issued out to shareholders as dividends. 15/31(48%) of the respondents were neutral thus view SMEDCO as a corporation that is there to help business operating in the informal sector hence it is rarely expected to make profit(Amedu, 2012). Only 1/31(3%) of the respondents agreed to the use of retained profit as working capital thus following the views of (Barry,

2010), who cited that retained earnings helps the corporation to withstand crisis and to embrace new opportunities.

#### 4.5.2 Bank loans and overdrafts

**Table 4.5.2 Results to show if SMEDCO use bank loans and overdrafts as a source of working capital**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Respondents	20	11	0	0	0	31
% outcome	65	35	0	0	0	100%

The table above shows that 20/31(65%) strongly agrees, 11/31(35%) agrees, whilst 0/31(0%) neutral, with 0/31(0%) agreeing and 0/31(0%) strongly disagreeing that the corporation can use bank overdrafts and loans to curb the funding gap. All the respondents thus a mode of 31/31(100%) agreed that the corporation uses bank loans and overdrafts to finance its operations. According to the financial statements of SMEDCO as at 31 December 2015, the corporation managed to secure an overdraft of \$100 000 from POSB. Using the available information a conclusion that bank loans and overdraft can be used as a source of working capital can be reached. Harvey(2010) supported the views of the respondents stating that corporations can use bank overdrafts and loans to finance their operations, and they are regarded as cheap sources of finance as the interests on loans are tax deductible.

#### 4.5.3 Debt factoring

**Table 4.5.3 Results to show if SMEDCO use debt factoring as a source of working capital**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Respondents	8	11	3	6	3	31



**Fig 4.5.3 Results to show if SMEDCO use debt factoring as a source of working capital**

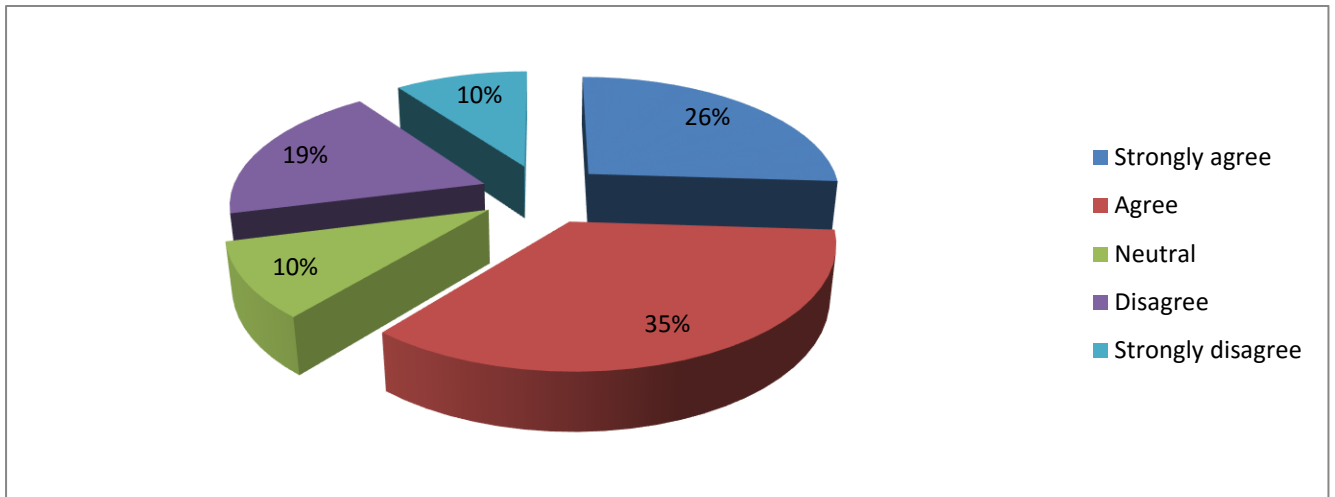


Fig 4.5.3 exhibit that 8/31(26%) strongly agree, whilst 11/31(35%) agree, 3/31(10%) were neutral, 6/31(19%) disagree and 3/31(10%) strongly disagree that debt factoring can be used as a source of finance. The information above shows that a mode of 19/31(61%) of the respondents agreed that SMEDCO can use debt factoring as a way, thus this proves that debt factoring can be used as a source of finance. This was also stated by (Barry, 2010) who said that debt factoring improves the cash inflow of the corporation hence the business can use the cash to fund their day to day operations. 3/31(10%) of the respondents were neutral thus they neither view debt factoring improving working capital base of the corporation nor worsen it. Colombelli(2010) cited that debt factoring has no effect on the working capital of a corporation as it reduces the trade receiveables and increasing the cash at hand thus the assets offset each other and the working capital base will be the same.9/31(29%) of the participants disagreed to the subject thus they view debt factoring reducing the working capital base of the corporation and this was supported by (Mylene, 2012) who highlighted that a debt is sold

to the factor at a discount thus the cash to be received from the factor is less the amount which was to be received if the corporation had collected their debt thus the corporation will suffer a loss.

#### 4.5.4 Assets disposal

**Table 4.5.4 illustrates if SMEDCO uses disposal of assets as source finance**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Respondents	14	17	0	0	0	31
% outcome	45	55	0	0	0	100%

Table 4.5.4 indicates that 14/31(45%) agreed, 17/31(55%) strongly agreeing with neutral, disagreeing and strongly disagreeing recording 0/31(0%) of respondents. A mode of 31/31(100%) agreed that SMEDCO can dispose off of their assets to finance its routine operations. Secondary data shows that during the financial year 2015, SMEDCO disposed its idle furniture worth \$2000. (Drzensky & Heinz, 2015) has the same view with the respondents stating that retention of idle assets aid the corporation to realise cash which can be reinvested to the business to fund its day to day operations.

#### 4.5.5 Government grants

**Table 4.5.5 illustrates if SMEDCO uses government grants as source finance**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Respondents	0	2	0	20	9	31
% outcome	0	6	0	65	29	100%

Table 4.5.5 shows that 0/31(0%) strongly agreed, 2/31(6%) agreeing, whilst 0/31(0%) were neutral, with 20/31(65%) disagreeing and 9/31(29%) strongly disagreeing that SMEDCO uses

government grants as a source of finance. An analysis of the above information shows that a mode of 29/31(94%) respondents disagreed to the matter which implies that the corporation does not use the grants as a source of finance. The corporation was promised cash by the government in 2012 but to date they have not received any funds. (Dandira, 2011) cited that corporations should not rely on government grants as they are not reliable especially in an unstable economy. Of the total respondents, 3/31(6%) agreed to the use of government grants as a source of funding and this was supported by (Adjapong & Afrifa, 2016) who postulated that government grants are there to provide the much needed working capital to firms under financial stress.

#### 4.6 Is SMEDCO a going concern?

**Table 4.6 illustrates whether HCCL is a going concern entity**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Respondents	0	5	12	13	1	31
% outcome	0	16	39	42	3	100%

Table 4.6 indicates that 0/31(0%) strongly agreed, 5/31(16%) agreed while 12/31(39%) were neutral, 13/31 (42%) disagreed and 1/31(3%) strongly disagreed that SMEDCO is a going concern entity. Only 5/31(16%) of the respondents agreed to the going of the corporation since there are no an intentions for the corporation to close thus supported by (Adela, 2010) who stated that an entity is a going concern if there are no intentions for the corporation to liquidate or cease trading. 12/31(39%) were neutral about the matter thus supported by (Kuruppu, et al., 2012) who cited that determination of going concern of an entity is subjective hence what one auditor may regard as a going concern may not be regarded by the other auditor as a going concern. Of the total respondents, a mode of 14/31(45%) disagreed that SMEDCO is still a going concern thus the corporation is facing some challenges in

meeting its obligations thus supported by (Mgbame, et al., 2012) who highlighted that when the corporation face challenges in meeting its present obligations and recording negative cash flows from operating activities the entity should not be regarded as a going concern. Since a mode 14/31(45%) disagreed that the corporation is a going this research concluded that SMEDCO should not be regarded as a going concern.

**4.7 Does the cash flow statement of SMEDCO show negative operating cash flows?**

**Table 4.7 illustrates if SMEDCO’s cash flow statement show a negative operating cash flows**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Respondents	20	11	0	0	0	31
% outcome	65	35	0	0	0	100%

The table above indicates that 20/31(65%) strongly agreeing, 11/31(35%) agreeing with neutral, disagreeing and strongly disagreeing recording a 0/31(0%) of respondents. A mode of 31/31(100%) agreed that the corporation has recorded a negative cash flow from operating activities thus this proves that the corporation is no longer a going concern as supported by (Adela, 2010) who sated that a negative cash flow proves that the corporation is under financial stress and is likely to fail to meet its immediate obligations.

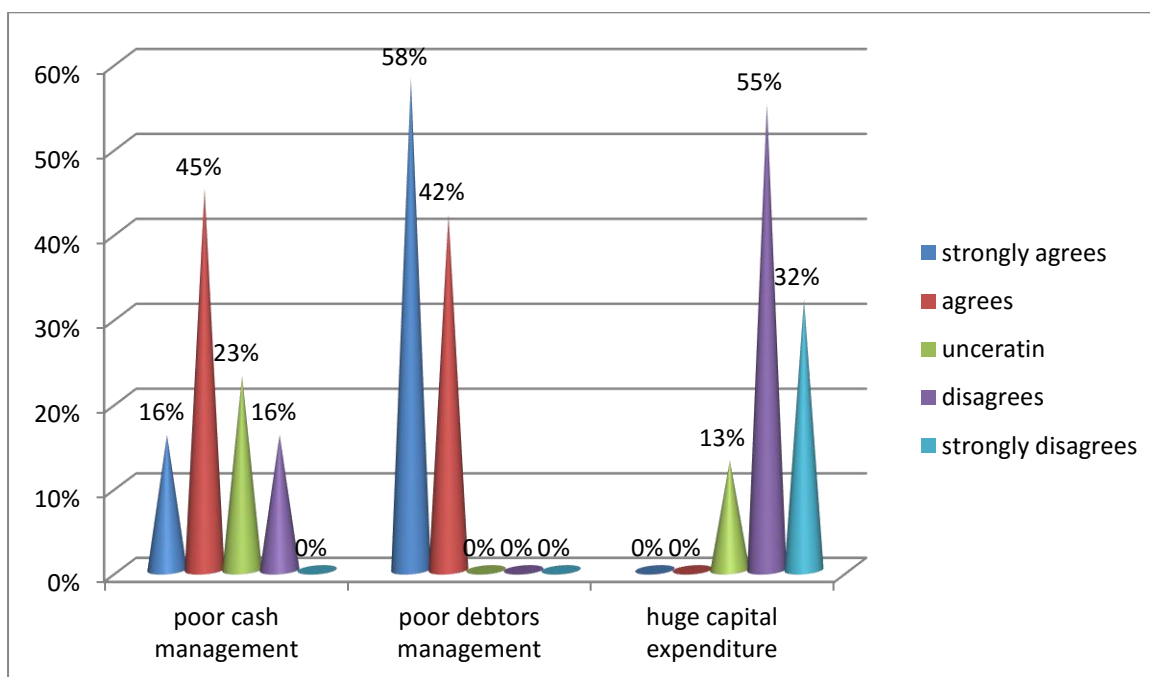
**4.8 The company’s financial position indicates a risk of insolvency arising from**

**Table 4.8 illustrates that SMEDCO’s financial position indicates a risk of insolvency arising from poor cash management, poor debtors’ management and huge capital expenditures.**

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
i) Poor cash management	5	14	7	5	0	31
ii) Poor debtors	18	13	0	0	0	31

management						
iii) huge capital expenditures	0	0	4	17	10	31

**Fig 4.8 illustrates that SMEDCO’s financial position indicates a risk of insolvency arising from poor cash management, poor debtors’ management and huge capital expenditures.**



**i.) Poor cash management**

Table 4.8 above shows that 5/31(16%) strongly agree, 14/31(45%) agree, whilst 7/31(23%) were neutral, with 5/31(16%) disagreeing and 0/31(0%) strong disagreeing that poor cash management has affected the financial position of the firm. A mode of 19/31(61%) of the respondents agreed that the corporation is failing to manage its cash flows hence this risks the corporation to liquidate, this was supported by (Adela, 2010) who stated that negative cash flows shows that the company is struggling and usually corporations with a negative cash flow violate the going concern assumption. 7/31(23%) were uncertain if poor cash management indicates the risk of insolvency of the corporation. 5/31(16%) of the respondents

disagreed to the matter thus supported by(Adeyemi & Uadiale, 2011) who stated that a corporation may record a negative cash flow not because its insolvent but because they buy their inputs on cash basis and sale them on credit hence this affect the cash inflows of the corporation.

### **ii.) Poor Debtor Management**

Table 4.8 illustrates that 18/31(58%) strongly agreed, 13/31(42%) agreed, with neutral, disagreed and strongly disagreed hitting 0/31(0%) of respondents. All the respondents agreed that poor debtors' management has affected its financial position thus a mode of 31/31(100%). According to the SMEDCO recapitalisation paper the corporation wrote off loans amounting to \$2 132 168.14 from 2009 to 2015 implying that the corporation have got a poor debtors management. (Chang & Velasco, 2010) supported the views of the respondents stating that if debtors are not managed well they will erode the working capital of the corporation as they default payments which may lead to the corporation failing to fund its operations. This research concluded that poor debtors management negatively impact the financial position of a company.

### **iii.) Huge capital expenditure**

Table 4.8 indicates that 0/31(0%) strongly agreed, 0/31(0%) agreed, with 4/31(13%) neutral, whilst 17/31(55%) disagreed and 10/31(32%) strongly disagreed. This shows that a mode of 27/31(87%) of the respondents disagreed to the matter that the financial position of SMEDCO shows a risk of insolvency arising from huge capital expenditure. This research proves that SMEDCO's financial position is under threat of insolvency resulting from poor cash management, poor debtors' management other than from huge capital expenditure as supported by (Bhimani, 2012) who acknowledged causes which put corporations at risk of

insolvents as poor cash management, ineffective debtors management and enormous capital expenditure.

#### **4.9 Is SMEDCO experiencing a loss of key management without replacement?**

**Table 4.9 illustrates if SMEDCO is losing out its key management without replacement**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Respondents	13	18	0	0	0	31
% outcome	42	58	0	0	0	100%

Table 4.9 shows that 13 out of 31(42%) respondents strongly agree, whilst 18 out of 31(58%) agree, 0/31(0%) neutral, 0/31(0%) disagree and 0/31(0%) strongly disagree that the corporation is experiencing a loss of key management without replacement. This shows that the whole sample thus a mode of 31/31(100%) agrees that the corporation is losing its employees and failing to replace them. According to the 2015 Human resource report SMEDCO lost 5 employees during the year inclusive of the finance director and the IT manager and they have not been replaced to date. This research concluded that the corporation is failing to retain its key employees this also support the view that SMEDCO is no longer a going concern as stated by (Lars, et al., 2015) that going concern of a corporation can be measured by the firm's capabilities to retain its employees or replace the employees that would have leave the corporation with new blood.

#### **4.10 Is funding gap the cause of high turnover at SMEDCO**

**Table 4.10 illustrates the relationship between funding gap and rate of employee turnover at SMEDCO**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Respondents	5	20	4	1	1	31
% outcome	16	65	13	3	3	100%

According to the table above 5/31(16%) strongly agreed, with 20/31(65%) agreeing, whilst 4/31(13%) were neutral, 1/31(3%) disagreeing and 1/31(3%) strongly disagreeing. Analysing the results, a mode of 25/31(81%) of the respondents agreed that funding gap is the cause of high turnover at SMEDCO implying that funding gap increases the rate at which employees depart from corporations. (Drzensky & Heinz, 2015) supported the views of the respondents stating that corporations with low working capital are characterised with stagnant growth hence offers little incentive to its employees thus no promotions and little salaries which forces employees to look for new opportunities.4/31(13%) of the total respondents were neutral thus supported by (Jung, 2012) who cited that employees will never get satisfied, they always look for better opportunities. The 2/31(6%) of the respondents disagreed that funding gap causes high turnover. Supporting the views of the respondents disagreeing, (Lars, et al., 2015), cited that factors like age, proximity to family and sickness causes high turnover in companies.

**Table 4.10.1 illustrates the variables to show the relationship between Funding gap and turnover**

	2013	2014	2015
<b>Funding gap(X)</b>	3 500 000	3 000 000	4 500 000
<b>Turnover(Y)</b>	2	2	5

*SMEDCO Human resource and financial reports (2015)*

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-4.857	2.761		-1.759	.329
Funding gap	2.143E-6	.000	.945	2.887	.212

a. Dependent Variable: Turnover: *Exported from SPSS software*



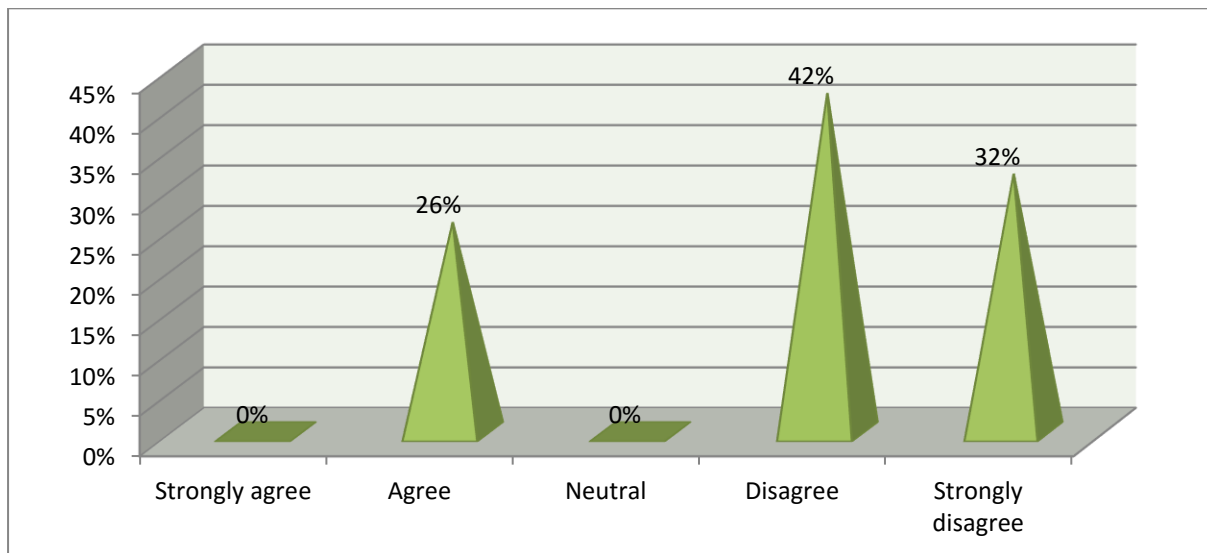
Analysing the information shown by the table above there is a direct relationship between funding gap and turnover proved by a positive coefficient of variation of 0.945 and this also corresponds with the mode of 25/31(81%) respondents who had the same view. This implies that an increase in the funding gap will also increase the rate of turnover as cited by (Jung, 2012) who stated that the lack of working capital usually results in corporations downsizing and reducing their workforce.

**4.11) Does the rate of turnover affect the financial performance of the SMEDCO?**

**Table 4.11 illustrates the relationship between turnover and financial performance of SMEDCO**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Respondents	0	8	0	13	10	31

**Fig 4.11 illustrates the relationship between turnover and financial performance of SMEDCO**



From the data illustrated on the table 4.11 and fig 4.11, 0/31(0%) strongly agreed, 8/31(26%) agreed, 0/31(0%) neutral, while 13/31(42%) disagreed and a frequency of 10/31(32%) strongly disagreed that rate of turnover affects the financial performance of SMEDCO. The

information above shows that a mode of 23/31(74%) of the respondents agreed that the rate of turnover does not cause poor financial performance of the corporation implying that rate of turnover and financial performance have got an inverse relationship. This was also supported by (Sitlington & Marshal, 2011) who said involuntary and functional turnover can be used as a way reducing unnecessary costs and eliminating inefficiency thus this improves the performance and profitability of the corporation. Only 8/31(26%) of the respondents agreed that turnover affects financial performance of the corporation thus supporting the view of (Schmitt, et al., 2012) who cited that high turnover can dent the face of the corporation and clientele base hence low sales which will in turn lead to poor financial performance.

**Table 4.11.1 illustrates figures of variables to show the relationship between turnover and profitability at SMEDCO**

	2013	2014	2015
<b>Turnover(X)</b>	2	2	5
<b>Profitability(Y)</b>	(1 858 069)	(1 262 298)	(369 408)

*SMEDCO Human resource and financial reports (2015)*

**Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-	570407.305		-2.387	.253
Turnover	1361593.167	171984.274	-.500	-.577	.667

a. Dependent Variable: profitability

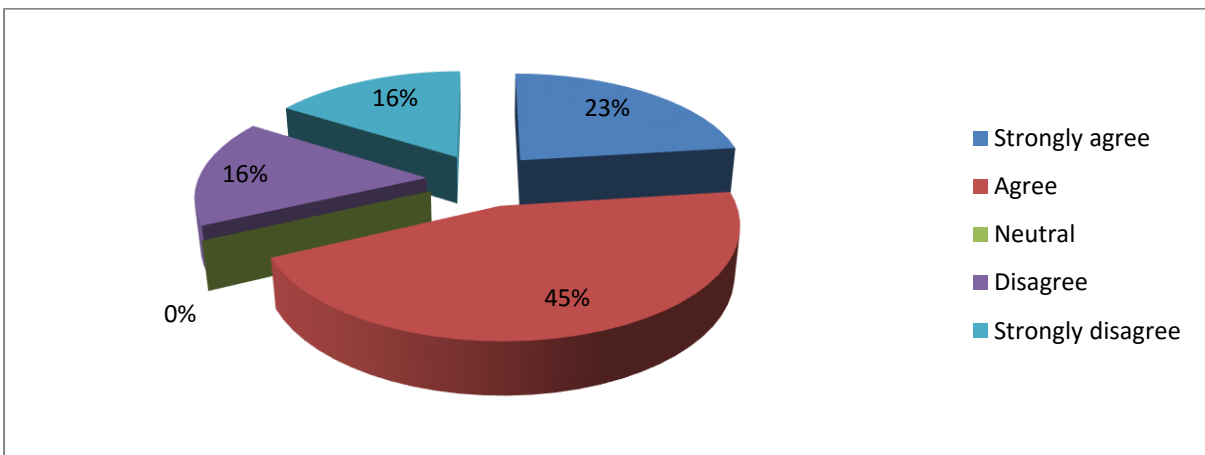
The table above shows a negative coefficient of variation of -0.500 which proves that there is an inverse relationship between the employee turnover and profitability which also corresponds to a mode of 23/31(74%) of the respondents. This was also supported by (Sitlington, 2012) who stated that involuntary and functional turnovers can be used as a tool for cost cutting which will turn increase the profit as wages and salaries bill decreases.

**4.12 Does the working capital level affect the profitability of SMEDCO?**

**Table 4.12 illustrates if working capital level affect the profitability of SMEDCO**

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Respondents	7	14	0	5	5	31

**Fig 4.12 illustrates if working capital level affect the profitability of SMEDCO**



The tables above shows that 7/31(23%) strongly agreed, 14/31(45%) agreed, 0/31(0%) were neutral, whilst 5/31(16%) disagreed and 5/31(16%) strongly disagreed that working capital level affect the profitability of SMEDCO. The above information shows that a mode of 21/31(68%) respondents agreed that there is a direct relationship between working capital level and profitability thus inverse relationship between funding gap and profitability of the

corporation thus supporting the views of (Lukkari, 2011) who stated that corporations should invest optimal working capital so as to yield maximum profit. The remainder of the respondents 10/31(32%) disagreed to the subject that working capital level affect the profitability of the corporation thus supported by (Glisovic & Martinez, 2012) who stated that with the global economic changes, there are ways of being productive with less capital thus the important thing is to allocate the available resources effectively and efficiently.

**Table 4.12.1 illustrates figures of variables to show the relationship between funding gap and profitability at SMEDCO**

	2013	2014	2015
<b>Funding Gap(X)</b>	3 500 000	3 000 000	4 500 000
<b>Profitability(Y)</b>	(1 858 069)	(1 262 298)	(369 408)

*SMEDCO financial report (2015)*

#### **Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	3813850.286	2466571.433		1.546	.365
Funding gap	-.723	.663	-.737	-1.090	.473

a. Dependent Variable: profitability: *Exported from SPSS software*

Using the regression analysis thus the coefficient of variation which is -0.737 the variables thus funding gap and profitability of SMEDCO have an inverse thus when funding gap increases the profitability of the corporation decreases and vice versa. This agrees with the views of the respondents 21/31(68%) and it was also supported by (Adjapong & Afrifa,

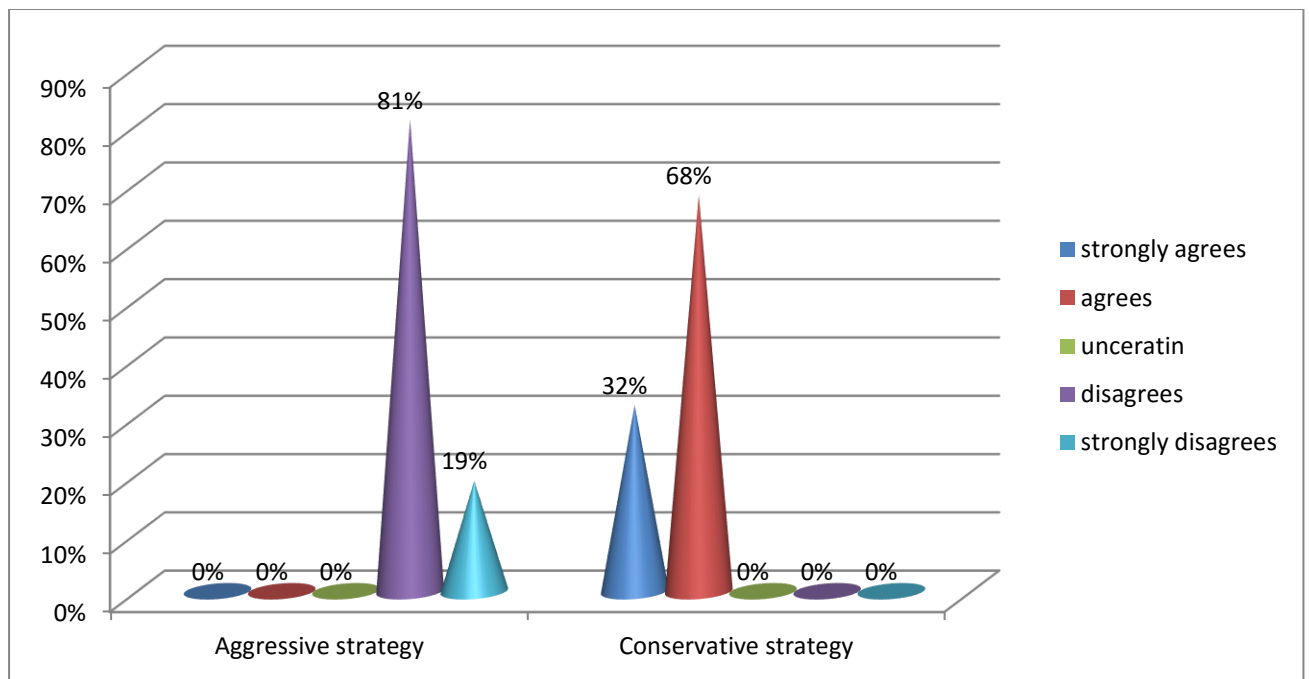
2016) who stated that funding gap has adversely affected the level of profitability of small enterprises.

#### 4.13 Which type of working capital does SMEDCO use?

Table 4.13 illustrating the type of working capital SMEDCO uses

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
i) Aggressive strategy	0	0	0	25	6	31
ii) Conservative strategy	10	21	0	0	0	31

Fig 4.13 illustrating the type of working capital SMEDCO uses



##### i.) Aggressive strategy

The above table indicates that 0/31(0%) strongly agreed, 0/31(0%) agreed, 0/31(0%) neutral, 25/31(81%) disagreed and 6/31(19%) strongly disagreed that the corporation uses aggressive strategy of working capital. All the respondents thus a mode of 31/31(100%) disagreed that SMEDCO uses aggressive strategy of working which means that the corporation does not use aggressive strategy of working capital. (Gill & Biger, 2013) supporting the views of the

respondents cited that aggressive strategy is usually not suitable for micro financing institutions as it favours cash sales thus firms which use that strategy operate on cash bases rather credit.

## **ii.) Conservative strategy**

Table 4.13 illustrates that 10/31(32%) strongly agreed, whilst 21/31(68%) agreed, 0/31(0%) were neutral, 0/31(0%) disagreed and 0/31(0%) strongly disagreed that SMEDCO uses conservative strategy of working capital. The whole sample thus a mode of 31/31(100%) agreed that the corporation uses conservative working capital strategy. This proves that the corporation favours conservative working capital strategy as it allows for credit facilities. The views of the respondents were supported by (Yazdanfar & Öhman, 2014) who stated that this strategy allows for lengthy debtors collection period and it helps attract more customers as they will be lured by the lucrative credit facilities.

### **4.14 Interview analysis**

The researcher planned to interview 5 SMEDCO employees, but he managed to interview only 4 respondents thus a response rate of 80%. The objective of interviews was to get clarity on questions asked in the questionnaires.

#### **Q1.) What are the reasons for SMEDCO's failure to attain external funding?**

The risk manager highlighted that the corporation is under financial stress hence it's facing liquidity problems which affected SMEDCO's accessibility to external funding. He also highlighted that the corporation lacks collateral security as all the assets had already been pledged as collateral for loans accessed in the past years hence they cannot use the same assets as collateral till they pay back the loans.

The finance director stated that SMEDCO has accessed loans from NSSA, MSMECD and an overdraft from POSB thus they have pledged their assets as collateral for those loans hence

most of the corporation's assets have been used and it does not have any other assets to use as collateral. She also stated that the corporation is a parastatal meaning that it is owned by the government hence the political environment in the country has affected the corporation's accessibility to external funding especially from foreign funding.

The accountant stated that there was a scandal of funds embezzlement by employees at the corporation hence this exposed the poor management of the corporation funds as the top management failed to put strong internal controls which could have reduced the risk of pilferage hence financial institutions feel that if they disburse loans to the corporation the money will be eroded through embezzlement and pilferages which will in turn lead to the corporation's failure to pay back. She also stated that the corporation has been affected by the domestic politics in accessing external funding as corporation is owned by the government.

The operations director highlighted that the corporation has failed to manage its debtors and this has negatively affected its liquidity position hence the corporation is facing some challenges in attaining external funding. He also stated that the corporation lacks collateral security to pledge to the financial institutions to get loans.

The interviewees pointed out that the corporation had pledged almost all of its assets for the Loan facilities from NSSA and an overdraft from POSB hence it lacks assets to use as collateral security for the loans. This also agreed with the questionnaires respondents which recorded a mode of 31/31(100%) agreeing that collateral security has hindered the prospects of the corporation getting financial assistance. The interviewees and the respondents shared the same view with (Abuzayed, 2012) who cited that for a corporation to access external funding, they should offer part of their assets as collateral to the lender thus the collateral assures the lender that the borrower will pay back the loan and if the borrower fails to pay back, the credit and the collateral will offset each other. The respondents also highlighted

that in 2010, a scandal of cash embezzlement by SMEDCO employees transpired and this has dented the corporate image and lenders are now afraid to offer credit facilities to the corporation as they fear that if the same scandal occurs they may fail to recover their cash. They stated that the scandal proved that the corporation's controls are weak and so is the management. This also corresponds 20/31(64%) of the respondents which shared the same idea with the interviews and they were also supported by (Dandira, 2011) who stated the performance of the management is considered by the lenders before disbursing any loans. The interviews shared the same view with 31/31(100%) respondents from questionnaires that political environment has also hindered SMEDCO for accessing external funding supported by (Brada, et al., 2014)who stated that political instability results in high inflation which will in turn leads to rationing of credit facilities.

**Q2.) In what ways can SMEDCO bridge the funding gap on its disbursements?**

The risk manager stated that SMEDCO has cash that is tied up in debtors hence the corporation can engage debt factoring as a way of improving its liquidity position. He also stated that the corporation can dispose some of its idle or excess assets to get cash for financing its daily activities.

The finance director stated that the corporation can also use bank overdrafts and loans as a source of working capital. She also stated that debt factoring can be an efficient way for improving SMEDCO's working capital level as the corporation have got large amounts of cash tied up in debtors.

The Accountant stated that the corporation has been facing liquidity problems due to poor debtors management hence they can factor the debt and get cash thus this will improve their working capital level as the factors pays them. She also stated that the corporation have got



phased out desktop computers to laptops hence they can sell the assets and use the cash to fund its routine activities.

The operations director highlighted the corporation can engage bank overdrafts and loans to improve its working capital. He also stated the corporation can also apply for government grants thus money from the government to improve working capital of corporations. He also said that the corporation can downsize thus closing some of its branches, selling its fixed assets thus using the funds from the sale as working capital.

The respondents suggested that the corporation can downsize thus closing some of the branches which are not performing well thus selling the fixed assets in those branches and this will also lead to a reduction in operating costs hence the cash from the sale can be channelled to fund the day to day operations. This also corresponded with 31/31(100%) respondents of questionnaires who supported that SMEDCO can sell some of its idle assets and use the money as working capital. (Drzensky & Heinz, 2015) supported the views of the interviewees and questionnaires respondents highlighting that corporations can use downsizing as a way of enhancing working capital as it reduces costs and increases cash as the fixed assets are sold. They also suggested that the SMEDCO should engage with banks so that it can have access to overdrafts and loans thus this corresponds with 31/31(100%) respondents from questionnaires which also agreed to the use of bank overdrafts and loans to improve working capital base for the corporation. The participants also recommended the use of debt factoring as the corporation have got cash that is tied up in debtors and this match up with a mode of 19/31(61%) respondents from questionnaires who also agreed to the use of debt factoring to improve working capital of SMEDCO. (Barry, 2010) had the same view with the interviews and the respondents citing that debt factoring can be used as a source of working capital as the factor pays off for the debtors.

### **Q3.) Is SMEDCO still a going concern?**

The risk manager stated that the corporation has been facing liquidity problems and they have recorded negative cash flows operating activities which show that the corporation is no longer a going concern. This is also in line with the views of the 21/31(65%) respondents which agreed that the corporation has recorded a negative cash flow from operating activities. (Adela, 2010) also supported the views of the respondents stating that negative cash flows from operating activities expose corporation to liquidity problems and the corporation will facing a risk of insolvency as it will fail to meet its obligations.

The finance director also agreed with the risk manager stating that the corporation is no longer a going concern as it is failing to meet its present obligations the likes of interest on loans and salaries. She also stated that over 70% of the assets have been pledged as collateral security and with the current situation at SMEDCO; the corporation is likely to fail to pay back the loans which will further affect the going concern of the corporation. 14/31(45%) respondents from questionnaires also shared the same views with the finance director as they agreed the SMEDCO is no longer a going concern. In support of the views of the finance director, (Mgbame, et al., 2012) cited that when a corporation fails to meet its present obligations and at the same time showing signs of bankruptcy, the corporation is regarded as no longer a going concern.

The accountant had the same view with the finance director stating that the financial position shows a risk of insolvency from poor debt management thus the corporation has failed to manage its debtors as they are not paying back the loans and this has affected the corporation's liquidity position and its now failing to meet its immediate obligations thus the corporation is no longer a going concern. All the respondents 31/31(100%) from questionnaires agreed with the view of the accountant that the corporation has failed to

manage its debtors. (Bhimani, 2012) supported the views of the accountant when he cited that poor management of debtors results in liquidity problems and it usually affects the going concern of a company.

The operations manager stated the corporation is no longer a going concern as it is losing its employees and failing to replace them. He also stated that during 2015 the corporation lost 5 employees. He also highlighted that the corporation has failed to fund its operations and they have stopped disbursements which is their core business till they have managed to secure funds to use as working capital. A mode of 31/31(100%) supported the same view that SMEDCO is losing its key employees without replacing them. (Lars, et al., 2015) supported the interviewee and the questionnaires respondents stating that when the rate of turnover of employees increases with the corporation failing to replace the employees, it shows that the corporation is insolvent.

#### **Q4.) How does funding gap affect the rate of employee turnover?**

The risk manager stated that funding gap has an impact on the firm's ability to retain its employees. He went on to state that when the corporation is not operating at its full capacity excess employs should be retrenched so as to reduce costs. This is also concurs with the views of 25/31(81%) respondents that agreed to funding gap as a cause of SMEDCO's high turnover supported by (Drzensky & Heinz, 2015) who cited that when corporations are faced with capital problems, they are forced to cut costs and they usually start by reducing its workforce.

The finance director agreed that funding gap has caused high turnover at SMEDCO as she stated that the corporation has been facing challenges in meeting its payroll hence the employees are looking for better opportunities with other companies. This also correspond to the views of 25/31(81%) respondents who agreed to the effects of funding gap on

turnover.(Jung, 2012)in support of the view that funding gap causes high turnover, he cited that when a corporation fails to cater for the physiological needs of its employees they are likely to live for better opportunities with other companies.

The accountant agreed that funding gap caused high turnover at SMEDCO. She highlighted that the corporation has introduced two weeks in and two weeks out thus working half of the month and receiving half salaries since corporation no longer affords to pay the full salaries to its employees hence the employees are looking for jobs where there is security that SMEDCO has failed to offer. This is in line with the views of 25/31(81%) of the respondents and it was also supported by (Clancy & Román, 2014) who cited that employees needs job security and when they feel that the current job has failed to offer that, they disengage themselves with the company as they look for greener pastures.

The operations manager was in agreement that funding gap cause high turnover and stated that SMEDCO has failed to offer its employees incentives for promotions as the corporation's growth is stagnant. This was also followed by 25/31(81%) of the respondents who agreed that funding gap has caused high turnover.(Friebel & Heinz, 2014) also supported the interviewees and questionnaires respondents by citing that employees are motivated to work and stay at the same company when they know that there are opportunities to rise through the ranks of the corporation's hierarchy.

**Q5.) How does funding gap affect profitability of the corporation?**

The risk manager ascertained that the funding gap has affected the corporation's profits as the corporation is failing to disburse loans thus less income since the major part of income comes from disbursements. This also correspond with 21/31(68%) respondents from questionnaires. (Lukkari, 2011) supported the views of the interviewee by stating that optimal working capital yields optimal profits.

The finance director also agreed to the effects of funding gap on profitability of SMEDCO. She stated that the corporation has failed to meet its customer demand all because of working capital problems. She also highlighted that the corporation has put a moratorium on lending services hence this means that the corporation will lose out on income from application fees and interests on loans. This was also in agreement with 21/31(68%) of the respondents. In support of the views of the respondents, (Adjapong & Afrifa, 2016) highlighted that lack working capital results in corporations operating below their expected capacity which leads to low profits.

The accountant also stated the funding gap has affected the corporation's profitability as the corporation use conservative strategy of working capital. She also stated that the more the working capital, the more the disbursements which means more revenue from interest on the loans disbursed. This concurs with 21/31(68%) respondents from questionnaires.(Glisovic & Martinez, 2012) supported the respondents by citing that working capital is the base for a corporation to make profits as it helps the corporation to sell more.

The operations manager highlighted that the funding gap has negatively impacted the profitability of the corporation as the operations of the firm are on halt since the corporation does not have the cash for disbursements hence less revenue from interest on loans. This is in line with 21/31(68%) respondents from questionnaire. (Adjapong & Afrifa, 2016) supported the participants by highlighting that working capital is the lifeblood of the corporation as the lack of it can lead to closure of the business.

### **Summary**

This chapter present the research findings as well as data analysis and presentation. The findings were evaluated so as to map the basis of providing conclusions and recommendations as to the impact of funding gap on financial performance of SMEDCO.

## **CHAPTER 5: CONCLUSIONS AND RECOMENTATIONS**

### **5.0 Introduction**

This chapter summarises all the chapters of this research. It also includes the major findings of the research as well as the conclusions and recommendations of the study. The recommendations of this research are dependable on the data collected and research findings so as to make informed recommendations.

### **5.1 Chapter summaries**

#### **5.1.0 Chapter 1**

This chapter is to introduce the study at hand thus the impact of funding gap on financial performance of parastatals using SMEDCO as the case study. The chapter's focal point was to prove that a funding gap exists at SMEDCO using raw facts and figures. It also explored further to the effects of the funding gap on the operations of the corporation. The chapter also spelled out the objectives of carrying out the research as well as the research questions, delimitations and the limitations that the researcher encountered during the research.

#### **5.1.1 Chapter 2**

This chapter focused on the available literature on the impact of funding gap on financial performance of parastatals thus this chapter concentrated on what other authorities wrote about the study at hand. Kiweu(2009) articulated that continuation of corporations revolves

around the level of working capital available and corporations should be able attract external funding to improve its working capital level. Corporations can use either long term or short term sources of finance to improve their working capital levels(Wilson, 2011). Adeyemi and Uadiale (2011) cited the financial institutions considers the going concern of a corporate before disbursing any loans to the corporation. Sitlington and Marshall(2011) highlighted that shortage of working capital has led to corporations retrenching its employees so as to reduce its costs. Adjapong and Afrifa(2016)went on to say that there is a direct relationship between the level of working capital and profitability of a corporation.The researcher used textbooks, journals and internet to acquire the information that was necessary for the study.

### **5.1.2 Chapter 3**

This chapter explained the research methodologies the researcher incorporated to collect data.The researcher engaged the mixed descriptive case study research design as it approved the use of both qualitative and quantitative data. The research also incorporated the use of correlation and explanatory designs as the researcher tried to establish the relationship between funding gap, rate of turnover and profitability of SMEDCO. The research used a sample size of 33 employees from a population of 49 and the participants were picked using purposively sampling meaning the participants were picked after considering their ability to answer the questionnaires and interviews. The study incorporated both primary and secondary data so as to enhance reliability. The researcher used interviews and closed ended questionnaires so as to allow for triangulation.

### **5.1.3 Chapter 4**

This chapter embodied the research findings. The data was presented using tables, pie charts and bar graphs. The data was analysed using a measure of central tendency which is mode representing the data with the highest frequency. The data collected by use questionnaires

was compared with the data obtained by use of interviews and from secondary sources so as to enhance the reliability of the data.

## **5.2 Major research findings**

### **5.2.1 Reasons for SMEDCO's failure to attain external funding**

Fig 4.4.1 shows that 23/31 (74%) strongly agrees that liquidity problems affect the accessibility of external funding whilst 5/31(16%) agree and 3/31(10%) were not sure. Neither of the respondents disagreed nor strongly disagreed to the effects of liquidity on accessibility of external funding to SMEDCO. Table 4.4.2 indicates that 10 of 31 participants strongly agree thus 32% of the total respondents, 10/31(32%) agree, 0/31(0%) were neutral, whilst 7/31(23%) disagree to the matter and the remaining 4/31(13%) strongly disagree that poor financial management have a bearing on accessibility of external funding by SMEDCO. Table 4.4.6 shows that 25/31(81%) strongly agrees, 6/31(19%) agrees, with 0/31(0%) neutral, whilst 0/31(0%) disagreeing and 0/31(0%) strongly disagreeing to the effects of political instability on accessibility of SMEDCO to external funding. The table 4.4.7 illustrates that 16/31(52%) strongly agreed, with 15/31(48%) agreeing and 0/31(0%) were neutral, disagreeing or strongly disagreeing that collateral security affect the corporation's accessibility to external funding. The interviews also agreed that the above factors have affected the corporation from accessing external funding.

### **5.2.2 Alternative ways of bridging the funding gap**

The table 4.5.2 shows that 31/31(100%) respondents agreed that the corporation can use bank overdrafts and loans to curb the funding gap. Fig 4.5.3 exhibits that 8/31(26%) strongly agree, whilst 11/31(35%) agree, 3/31(10%) were neutral, 6/31(19%) disagree and 3/31(10%) strongly disagree that debt factoring can be used as a source of finance. Table 4.5.4 indicates 31/31(100%) agreed that SMEDCO can dispose off of their assets to finance its routine



operations. This corresponds with the interviewees that highlighted that the corporation can engage bank overdrafts, loans, assets disposal and debt factoring to reduce the funding gap.

### **5.2.3 Is SMEDCO a going concern?**

Table 4.6 indicates that 0/31(0%) strongly agreed, 5/31(16%) agreed while 12/31(39%) were neutral, 13/31 (42%) disagreed and 1/31(3%) strongly disagreed that SMEDCO is a going concern entity. The interviewees also disagreed that the corporation is still a going concern as they cited that the financial position and the cash flow statement of the corporation shows a risk of the corporation being insolvent.

### **5.2.4 Relationship between funding gap and employee turnover**

According to the table 4.10, 5/31(16%) strongly agreed, with 20/31(65%) agreeing, whilst 4/31(13%) were neutral, 1/31(3%) disagreeing and 1/31(3%) strongly disagreeing that funding gap is directly proportional to employee turnover. The interviewees shared the same view with the questionnaires and were also supported by a positive coefficient of variation of 0.945 which shows that the variables are correlated.

### **5.2.5 Relationship between profitability and funding gap**

The tables above shows that 7/31(23%) strongly agreed, 14/31(45%) agree, 0/31(0%) were neutral, whilst 5/31(16%) disagreed and 5/31(16%) strongly disagreed that working capital level affect the profitability of SMEDCO. The interviewees corresponded with respondents as they highlighted the poor working capital levels has a negative impact on the profitability of SMEDCO and this was also supported by a negative coefficient of variation of -0.737 to show that there is an inverse relationship between the two variable thus when funding gap increases the profits will go down and vice versa.

## **5.3 Research conclusions**

The research successfully established the causes of the funding gap and the ways the corporation can use to curb the gap. The funding gap pose a threat of the corporation being

insolvent as it has been failing to meet its obligations as they fall due and it has also resulted in the corporation recording a high employee turnover.

#### **5.4 Recommendations**

SMEDCO should engage with banks and other financial institutions which offer credit facilities to improve its working capital. The funds to be received should be used for its intended use to avoid eroding the capital.

Management should formulate and implement internal control systems so as to safe guard the corporation's assets and to reduce embezzlement and pilferages. A proper accounting system should be put in place to monitor cash movements and the corporation should the use of an integrated system with a facility of making payments via the system to avoid cash handling which tempts employees to engage into fraudulent activities.

The management need to improve on its debtors management and they should employ employee qualified risk personnel so as to improve efficiency on lending and reducing the risk of offering credit facilities to clients who are not credit worth.

The management may consider downsizing so as to reduce unnecessary costs thus the costs of employees stationed at branches, electricity, water, rentals and fuel to mention a few. Downsizing will also enhance the working capital of the corporation as the fixed assets from the closed branches will be sold and the cash will be used to fund the corporation's routine activities.

#### **5.5 Further areas of study**

The researcher propose that a research on debtors management should be carried out so as to enhance the recommendations on ways SMEDCO can use to reduce amounts to be written off as bad debts since this has significantly affected the working capital of the corporation.

## Summary

The chapter focused on summaries of chapters, major findings, conclusion, recommendations and area of further study was also included in the chapter.

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## **APPENDICES**

### **APPENDIX A: APPLICATION LETTER**

Midlands State University

P Bag 9055

Gweru

23March 2016

Small and Medium Enterprises Development Corporation

170 Chinhoyi Street

Harare

Dear Sir/Madam

**RE: APPLICATION FOR AUTHORISATION TO CARRY OUT RESEARCH AT  
YOUR ORGANISATION**

My name is Clive Makurumidze a 4<sup>th</sup> year student at the above mentioned institution studying towards the attainment of a Bachelor of Commerce Accounting Honours degree. I do hereby seek your authorization to undertake a research titled, “An assessment of the impact of funding gap on the financial performance of parastatals”, using your corporation as a case study. The research is a prerequisite and is carried out in partial fulfilment of the degree programme.

All the information provided whether general or specific will be used for academic purposes and utmost privacy and confidentiality is certainly guaranteed.

Your cooperation to this research will be greatly appreciated

Yours faithfully

Clive Kuzivakwashe Makurumidze (R124119Q)

Midlands State University

P Bag 9055

**GWERU**

23 March 2016

To whom it may concern

**REF: QUESTIONNAIRE TO SEEK INFORMATION**

My name is Clive Makurumidze a student at Midlands State University, undertaking a Bachelor of Commerce Accounting Honours Degree. In partial fulfilment of the degree programme the student is required to carry out a research project. The student is researching on the impact of funding gap on the financial performance of SMEDCO.

All the data gathered will be strictly private and also confidentiality on the information will be maintained. The information collected will be used for academic purposes only. Anonymity shall be maintained at all levels. Please assist by answering the below questions.

Your participation on this is very much appreciated.

Yours faithfully

Clive Kuzivakwashe Makurumidze (R124119Q)

**APPENDIX B: PERSONAL INFORMATION**

**NB. TICK IN THE PROVIDED BOX**

1.) Time spent at the organization by the respondent

0-3yrs     3-5 yrs     10 yrs    +1  0 yrs

2.) Current position of the participant in the organisation .....

3.) The academic qualifications of the respondent

“A” Level     Diploma     Degree     Masters         Other

Specify if other.....

**APPENDIX C: QUESTIONNAIRE GUIDE FOR SMEDCO**

1.) Do the following factors hinder SMEDCO from accessing external funding?

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
i) liquidity position					
ii) Sound financial management					
iii) borrower-lender					



relationship					
iv) previous history of borrowing					
v) inflation					
vi) political instability					
vii) Collateral security					

2.) Can SMEDCO engage the following sources of finance to reduce the funding gap?

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
i) Retained earnings					
ii) Bank loans & overdrafts					
iii) debt factoring					
iv) Asset disposal					
v) government grants					

3.) SMEDCO is a going concern entity

Strongly agree  Agree  Uncertain  Disagree  Strongly disagree  4.) Does the   
cash flow statement of SMEDCO show negative operating cash flows?

Strongly agree  Agree  Uncertain  Disagree  Strongly disagree

5.) The company's financial position indicates a risk of insolvency arising from:

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
i) Poor cash management					
ii) Poor debtors management					
iii) huge capital expenditures					

6.) Is SMEDCO experiencing a loss of key management without replacement?

Strongly agree  Agree  Uncertain  Disagree  Strongly disagree

7.) Is funding gap the cause of high turnover at SMEDCO

Strongly agree  Agree  Uncertain  Disagree  Strongly disagree

8.) Does the rate of turnover affect the financial performance of the SMEDCO?

Strongly agree  Agree  Uncertain  Disagree  Strongly disagree

9.) Does the working capital level affect the profitability of SMEDCO?

Strongly agree  Agree  Uncertain  Disagree  Strongly disagree

10.) Which type of working capital does SMEDCO use?

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
i) Aggressive strategy					
ii) Conservative strategy					

#### **APPENDIX D: INTERVIEW GUIDE**

1. What are the reasons for SMEDCO's failure to attain external funding?
2. In what ways can SMEDCO bridge the funding gap on its disbursements?
3. Is SMEDCO still a going concern?
4. How does funding gap affect the rate of employee turnover?
5. How does funding gap affect profitability of the corporation?