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FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

AN ANALYSIS OF THE FUNDING GAP ON THE PERFORMANCE OF MINES. A CASE OF HWANGE COLLIERY COMPANY LIMITED (HCCL)

BY

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(R11686M)

A RESEARCH PROJECT PROPOSAL SUBMITTED TO THE DEPARTMENT OF ACCOUNTING IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF THE BACHELOR OF COMMERCE ACCOUNTING HONORS DEGREE

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DEDICATION

To

My mother, father

&

The Almighty God

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My profound appreciation goes to our Lord Jesus Christ for his unconditional love and guidance who made me sail over. I am largely indebted to my supervisor Mr Kazembe for his guidance, unwavering support and integrity who always monitored my progress. My heartfelt gratitude goes to my colleagues who always insisted and were eager in knowing my progress and who brought life involvement and joy at MSU. It would be unfair if I do not give distinguished mention to the Accounting lectures for making this research project a success.

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ABSTRACT

The research study examined HCCLs funding policy. The study was motivated by numerous cases when HCCL was let down by its lenders due to funding costs non compliance. HCCL received countless final warning documents from debt collectors and financial institutions.

Related literature was reviewed to strengthen the thrust of the study. Descriptive approaches with a sample size of thirty five questionnaires and five interviews were used in gathering primary and secondary data. Tables, graphs and charts were used in presenting collected data. The research showed that HCCL had implemented a funding policy which was not fully complied with. The study recommended that HCCL should adhere to its policy proclamations with financial institutions. HCCL should reduce financial constraints by replacing short term borrowings with long term borrowings.

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Chapter One

Introduction

1.0Introduction

This chapter will cover the background of the study as well as the statement of the problem. It will also provide an insight of the significance of the study, limitations of the study, delimitations of the study, objectives of the study, limitations of the study as well as definitions of terms and summary.

1.1Background of the study

Hwange Colliery Company Limited is a company which is in the business of mining and processing coal, production of coke and related by-products. The main operations are coal mining,(underground mining, open cast mining, pit layout, drilling and blasting, dragline stripping, and throw blasting) and coal processing(coke manufacture, gas plant and railway streamers.)

The country's biggest coal producer has been facing a lot of challenges of late which includes lack of adequate funds. HCCL needs capital injection of about USD200 million to fully recapitalize its operations which have waned largely due to failure to replace its obsolete machinery(www.bulawayo24.comaccessed 13 August 2014;18:31)

Over the past five years new mines such as Makomo Resources, Chilota, WK Blating and Clider have come on board and they have taken chunks of HCCL's market. The government has also awarded about 20 companies special grants to explore and extract coal as well as coal bed methane, a development that would further impact negatively on the company's market .

Table 1.1

Extract of Hwange Colliery financial statements

Year	2010	2011	2012	2013
Revenue	$US98.9m	$US107.9m	$US104.3 m	$US71.5 m
Profit/loss	$US63m	$US43.8m	$US31.3m	$US(30.9m)

Source:(www.zimbabwestockexchange.comaccessed 13 August 2014;19:00)

HCCL chairman F .Mutungamira said production levels were consequent to the old equipment, the increase in high fixed overhead costs, the rising input costs and the absence of facilities of working capital. He went on to say shortages of liquidity in the economy did not only suppress demand but also limited sources of working capital for the company(www.newsday.co.zw accessed 13 August 2013 20:00)

Four year old Makomo overtook Hwange Colliery Company Limited to become the highest coal producer in 2013.Dogged by capital constraints and working capital HCCL production averaged 150000 tonnes whilst that of Makomo averaged 300000tonnes a month.Makomo recently acquired a $14 million coal washing plant from South Africa which is expected to boost production of premium coal products which would be exported to the region.(www.newsday.co.zw accessed 13 August 2013;20:30)

1.2Statement of the problem

Reflecting the liquidity and capital challenges that HCCL is facing, its growth is scaling down. There is limited capital to recapitalise HCCL which requires large amount of capital, because of the liquidity problem the company is experiencing low capacity utilization levels, low productivity levels and this has taken away the competitiveness of HCCL.

1.3Research objectives

- To discuss how external financing can help resurrect HCCL from a distressed financial position.

- To identify the major cost drivers.
- To determine the reasons why HCCL cannot access external loans.
- To establish the going concern of HCCL.
- To determine the working capital cycle for HCCL.

1.4Main research question

What is the impact of external financing on the performance of HCCL?

1.5Sub research questions

- How can external financing help resurrect the colliery from a distressed financial position?
- What are the major cost drivers in HCCL
- Why is HCCL failing to access external loans?
- Is HCCL a going concern?
- How can the working capital cycle of HCCL be analysed?

1.6Significance of the study

To the researcher

- The research project is a partial fulfilment of Bachelor of commerce Accounting Honours degree at Midlands State University.

To Midlands State University

- If carried out successfully, the research might be of use to the university. It forms part of research material and provide further literature for review for Midlands State University. This might be essential for other students at the institution and other related institutions who wish to ponder further on the same subject.

To HCCL

If carried out successfully the research will prescribe recommendations on the ways of solving the funding problems currently being faced by the company.

1.7Limitations of the study

- Confidentiality of information limited the researcher from attaining certain information which the organisation considered confidential. However the researcher had to seek approval from management to access information for academic purposes.
- The timeframe within which the research was conducted tended to be considerably short and thus the researcher worked during the night and weekends.

1.8Delimitation of the study

The research will analyse the impact of external financing on the performance of HCCL and find ways to help address the funding problems being faced by the company. The research will focus on financial statements for the period January 2010-December 2013.

1.9Assumptions

In carrying out the research the researcher will assume that;

- Responses from questionnaires are accurate and free from bias
- The data obtained by the researcher is accurate and can be relied on.
- The respondents to the research are cooperative and hence give a true and factual response.

1.10Definitions

Performance- the ability of an organisation to achieve its objectives as measured by profitability, growth and labour turnover.

External financing-refers to a phrase used to describe funds that firms obtain outside of the firm.

Cost driver-refers to the unit of an activity that drives the change of cost in production or servicing.

Working capital cycle-refers to the time required by the business to convert the current assets and current liabilities into cash.

HCCL-Hwange Colliery Company Limited

1.11Summary

This chapter introduced the background of the study; statement of the problem and objectives to help the reader develop an appreciation of the problem. The relevant research questions were also outlined including significance of the study. Assumptions put into consideration, definition of terms, delimitation as well as limitations to the research all constituted this chapter. The next chapter, the review of related literature, looks at the theoretical reviews and arguments put forward by various authors and practitioners.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

Literature review refers to an account of what has been published on a topic by accredited scholars and researchers, Perott (2011) .This chapter seeks to make an overview on literature review outlining the research objectives in depth. The objectives include establishing how external financing can help improve HCCLs financial performance, identifying major cost drivers of HCCL, determining the reasons why HCCL cannot access external loans, establishing going concern of HCCL and determining working capital cycle for HCCL. The chapter also aims at analyzing theoretical and empirical evidence establishing findings with conflicting evidence and identifying research gap left behind

2.1External financing defined

External financing is the phrase used to describe funds that firms obtain from outside of the firm. It is contrasted to internal financing which consists mainly of profits retained by the firm for investment. Financing provides the lifeblood of a firm’s ventures anywhere in the world. A weak financial structure can create problems in all areas of the firm's operations, including delays in R&D, ineffective marketing and inability to hire qualified personnel, Aiyagari (2009)

Funding gap

Wisegeek (2012) defined funding gap as the deficit in capital amount, required to fund ongoing operations thereby drowning the company under financial distress. Management can embark on external debt or capital contributions from shareholders in order to close the funding gap.

2.2 Long-Term Sources of Finance

Long term sources of finance are those that are needed over a longer period of time, generally over a year. Long-term finance may be needed to fund expansion, setting up new offices, buying new premises in another part of the country, development of a new product or buy another company, (Gomes 2011)

2.3 Short Term Sources of External Finance

These are those finances that are needed for a shorter period of time, usually less than one year. Short-term finance is required by business firms to meet day to day expenses. It facilitates the smooth running of business operations. It enables holding of stocks of raw materials and finished products, helps to increase the volume of production at short notice and bridges the time gap between commencement of production and realization of sales. There are a number of sources of short-term finance, namely: Trade Credit, Bank credit including loans and advances, cash credit, overdraft and discounting of bills, Pandey (2012). Short-term finance is helpful to business in meeting temporary requirements of funds without a heavy burden of interest. It is a flexible source of finance. When necessary, it may also serve long-term purposes through renewal. However interest has to be paid on short-term borrowing, irrespective of profit or loss. It also needs security of assets to be provided by the borrower, Pandey (2012).

2.4.External sources of finance

Ordinary shares:

Under this arrangement, companies raise capital by selling stock in their business. This entitles the purchaser to a voice in the decisions made by the firm. While ordinary shares do not have a fixed rate of dividend (a share of company profits) from profits after current liabilities and other investors have been serviced, not paying them can diminish share value. A business will avoid this if they hope to issue shares in the future, Buera 2011)

Preference shares:

Preferential shareholders receive dividends before individuals with ordinary shares. Their lower risk and lower levels of return mean that preference shares have a less volatile market price. These have lost popularity since, while they are alike borrowings in many other aspects, dividend payments are not tax deductible, Hellwig (2009)

Bank overdraft:
Businesses can access funds by maintaining a negative balance on its bank account. The advantages of using an overdraft include flexibility, competitive interest rates and can become a long term source of finance (dependent on the confidence inspired by the borrower). But, reliance on an overdraft can have devastating consequences, since it is repayable on demand, Fuerst (2009)

Term loan:
Financial institutions provide negotiable loans in which the rate of interest, repayment dates and security for the capital offered must be agreed. Because they are commonplace, this option is easy to set up and has a degree of flexibility. At the same time, borrowed capital often comes with obligations and restrictions known as ‘loan covenants’, Carlstrom (2009)

Loan notes/stock:
This form of borrowing, exchanges capital from investors for a note representing the loan which can then be traded on the Stock Market. The value of a loan note fluctuates with the business’s performance, Chetty (2012)

Finance lease:
Under this arrangement, a business will select an asset which is then purchased by a finance company. The lease will then be paid in a series of rentals or instalments. This avoids the large cash outflows of an outright purchase. The risks and rewards associated with the purchased item are transferred to the lessee, Guren(2010)

Operating lease:
This is similar to the finance lease, except the rewards and risks of the item stay with the owner. The asset becomes security, meaning that operating leases are usually given without detailed credit checks. The term of an operating lease is short compared to the useful life of the asset, and so the asset might be used by multiple lessees in its lifetime. Businesses can, therefore, avoid obsolesce risks by this means, Manoli(2010)

Sale and lease back:

Businesses can raise funds by leasing their unused assets to a financial institution, Weber (2011)

Debt factoring:

Debt collection can be outsourced to specialist subcontractors. This can increase cash assets by providing savings in credit management and certainty in cash flows. Stakeholder opinion should be considered before opting for this financing option, as the use of outside agents could be viewed as an indication of financial difficulties, Cooley (2009)

Bank Loans

Cooley (2009) says that entities may raise funds by applying for bank term loans, revolving credit lines overdraft agreements. Term loans are for fixed periods. Entities borrowing from revolving lines of credit are allowed to use loan proceeds again as long as they make minimum payments. Entities pay lenders fixed or variable amounts on a periodic basis.

1.1 Equity Issuance

According to Quadrini (2012) entities may seek external financing by selling equity shares on securities exchanges. Buyers of equity shares also called shareholders or stock holders acquire voting rights and are paid dividends periodically. They also make profits when stock prices increase. Entities of non-listed in securities may sell equity shares privately to investors such as banks, insurance companies, asset management firms and brokerage institutions. Corporate finance experts and investment banks help sell such securities in private placements.

1.2 Government Subsidies

According to Davis (2010) governments encourage entities to invest in designated programs such as economically disadvantaged areas or industry sectors. They provide subsidies, grants or tax advantages to entities that meet program guidelines and procedures.

1.3 Bonds

Firms also may finance short- or long-run initiatives by selling bonds or debentures to investors on securities exchanges. Non-listed entities may sell such products privately to interested investors such as insurance companies, pension funds and banks. Bondholders receive periodic interest payments, Haltiwanger(2012)

1.4 Quasi-debt

Quasi-debt financing involves issuing equity-debt securities. Such securities are also referred to as hybrid securities. Convertible bonds and preferred stocks are examples of quasi-debt instruments. Convertible bondholders receive periodic interests and principal loan amounts at maturity similarly to regular bondholders. They also have rights to convert bonds into stocks in accordance with bond issuance agreements. Preferred shareholders receive periodic dividends before regular or common shareholders, Jarmin (2011)

2.5Benefits of External financing

As described by Miranda (2009),external funding allows firms to use internal financial resources for other purposes. If it can find an investment that has a higher interest rate than the bank loan the company just secured, it makes sense to preserve resources and put money into that investment, using the external financing for business operations. The firm can also set aside its internal financial resources for cash payments to suppliers, which can help improve the company's credit rating.

According to Shleifer and Vishny (2010) part of the reason organizations use external funding is that it allows them to finance growth projects the company could not fund on its own. For example, if the business is growing to the point that it needs additional manufacturing space to keep pace with demand, external financing can help get the funding needed to build additions. External funding can also be used for making large capital equipment purchases to facilitate growth that the company cannot afford on its own.

Modigliani and Perott(2011) observed that some sources of external financing, such as investors and shareholders, require a firm to give up a portion of the ownership of the company in exchange for the funding. It may get that large influx of cash it needs to launch a new product, but part of the financing agreement is the investor is allowed to vote on company decisions. This can compromise the vision the company originally had when it was founded.

King and Levine (2012) stated that a business needs investments to grow. Even the most profitable companies cannot rely solely on reinvested profits to finance their expansion. Accordingly, a business needs to secure bank credit, partner with venture capital firms or in any other way tap external sources of finance. External finance provides the room for faster growth, allowing the company to operate on a far bigger scale, capturing new markets and providing products and services to an ever greater number of customers.

Large businesses are generally more efficient than small ones. They have a greater bargaining power with suppliers and they can spread their fixed costs, such as administrative expenses, over larger sales. This results in lower costs per unit of production, which, in turn, gives the company a competitive edge in the marketplace. External sources of finance help a company grow faster, achieving the economies of scale necessary to compete with the rival firms on regional, national, or even international level, Dunne (2009)

Business financing from an external source simply means that money is coming in from somewhere that is not within the company itself (that is, not from the profits the company is making, which would be considered internal financing). There are some obvious benefits for getting money from outside sources. It is often the only way to get a business started, or to expand it in a direction that it needs to go. Many businesses would not have existed, would it not have been for loans and capital coming in from other sources, Reenwood (2011)

2.6Disadvantages of external financing

There are, of course, external loan financing disadvantages. Businesses need to forfeit some of their ownership rights in order to obtain external financing, and depending on the amount of the loan they are receiving, the level of ownership and control may be substantial. Venture capitalists will often gain an overwhelmingly significant say in what happens in the business and will almost certainly guarantee it to themselves through contract. For a corporation, external financing may come from the issuance of new stock. This can decrease the owner's equity and means a loss of ownership, (Roberts 2011)

2.7Determinants of access to external finance

Access to external finance is a key determinant of a firm's ability to develop, operate and expand. To date, the literature has examined a variety of macroeconomic and microeconomic factors that influence firm financing. For example, the availability of external finance is likely to vary with changes in the macroeconomic environment and monetary policy shocks. Early empirical research on this topic, such as Kashyap (2010) and Oliner and Rudebusch (2010), focused on the impact monetary policy changes had on firms' access to bank lending, measured as the ratio of their bank funding to total external financing.

These early studies used firm size (i.e. total assets) as the only relevant firm-specific variable in examining access to external finance. This key characteristic of firm-level behavior and performance has been addressed by several papers at the microeconomic level; specifically Atanasova and Wilson (2011) and Bougheas. (2011). In the latter, the authors presented a modified theoretical model of access to external finance and test a variety of its implications. Within this model, monitoring is costly, which leads firms with less healthy statement of financial position to use banks to fund themselves. Healthier firms can access the capital markets for some or all of their funding. Since monetary policy actions influence everyone's funding costs, the model identifies firm characteristics that help explain the differing magnitudes of these effects. This is known as the "broad" channel of monetary policy since all firms, including banks, face higher funding costs. Specifically, the model proposes that more financially vulnerable firms (i.e. more indebted firms) should be more severely affected by monetary tightening.

The arm's-length relationships found between firms and market-based providers of funds (either from equity or debt markets) contrast with the close nature of the firm-lender relationships; Rajan (2011). As described by Samuelson (2012), banks contribute to the resolution of asymmetric information problems in lending through their monitoring advantage and thus play a significant role in shaping firms' liabilities.

However, as pointed out by Sharpe (2011) and Rajan(2011), a close firm-lender relationship may lead to an information quality capture that results in a"hold-up" problem in which banks are able to extract rents from borrowing firms. Empirically, Denis and Mihov (2012) show that the credit quality of the borrower is a key determinant of the type of external financing it uses; that is, their choice of public debt, bank debt and non-bank private debt. Berger and Udell (2009), Harhoff and Korting (2011) and Jiménez and Saurina (2010), among others, provide evidence on the impact that bank-firm relationships have on firm access to bank external funds. However, apart from public debt and bank debt, Petersen and Rajan (2011) show that trade credit plays also a crucial role among external sources of funds for firms.

Prior studies regarding firms' access to external finance have examined a number of financing measures as endogenous variables. For example, Bougheas (2011) used two measures of external financing for their study, the ratios of short term debt to total debt and total debt to total liabilities. They assert that these ratios correspond to measures of access to bank and total external financing, respectively. These ratios do not have the same interpretation, since short-term debt does not correspond to banking debt .The first financing measure is the ratio of short-term debt, regardless of financing source, to total debt. The second and third financing measures are a decomposition of the short-term debt measure into its bank and non-bank (specially, trade credit) components. Size was found to be a factor influencing firms' financing decisions by Gertler and Gilchrist (2009)

Oliner and Rudebusch (2009), Kashyap (2009), Atanasova and Wilson (2010), and Bougheas(2011) theoretical models, such as that presented in Bougheas (2011), commonly suppose that firm access to long-term debt and non-bank debt should increase with size, and their empirical results support this hypothesis with a negative coefficient estimate. These firms rely strongly on suppliers' trade credit but, nevertheless, they also have strong and durable bank relationships. Theoretical models would suggest a negative relationship between firm age andreliance on bank debt. However, some empirical studies, such as Bougheas. (2011), show a positive relationship with both short-term and long-term debt ratios, suggesting that older firms simply have more access to external financing of all kinds.The third explanatory variable is the ratio of firm tangible assets to total assets. Tangible assets are a measure of firms' available collateral. Several models, such as that of Bougheas (2011), suppose that firms with more tangible assets as a percentage of total assets have easier access to non-bank credit, such as from the capital markets, implying a negative relationship with bank financing.

In theory, longer banking relationships should alleviate some of the standard information asymmetry problems between lenders and borrowers. Hence, a longer banking relationship is expected to provide firms with greater access to both bank and external financing Jiménez (2009) and Chakraborty (2011). In fact, Berger and Udell (2011) found that borrowers with longer banking relationships pay lower interest rates and are less likely to pledge collateral. Yet, it is also possible that if the firm has had a long banking relationship, the bank might extend better credit terms to assist the firm. An empirical test must be carried out to show what the effect of this interacted variable might be. A borrower with more collateral should receive more advantageous borrowing terms, ceteris paribus. Jiménez (2009) found that in periods of higher real interest rates, the use of collateral is less likely and hence lowers a firm's chances of acquiring external financing.

2.8Advantages of Bank Loans

Giambona (2010) suggest that a bank loans money to a business based on the value of the business and its perceived ability to service the loan by making payments on time and in full. Banks do not take any ownership position in businesses. Bank personnel also do not get involved in any aspect of running a business to which a bank grants a loan. Once a business borrower has paid off a loan, there is no more obligation to or involvement with the bank lender unless the borrower wishes to take out a subsequent loan.

According to Harvey (2010) the interest on business bank loans is tax-deductible. In addition, especially with fixed-rate loans, in which the interest rate does not change during the course of a loan, loan servicing payments remain the same throughout the life of the loan. This makes it easy for businesses to budget and plan for monthly loan payments. Even if the loan is an adjustable-rate loan, business owners can use a simple spreadsheet to compute future payments in the event of a change in rates.

Another benefit of getting a business loan is that, if the loan is lent to a corporate entity, the loan will not usually have to be repaid by the business owner if the company fails. In the event of failure, the business is liquidated, which helps pay back part (sometimes all) of the funds borrowed. Many business owners keep this advantageous aspect in mind when borrowing money because it is only the corporation that will go bankrupt in the event of loan default, not the owner personally, Evans(2012)

2.9Empirical Studies on External Financing

A number of studies have been conducted on external financing and its influence on the financial performance of businesses. Hubbard , (2009) in his study 'the effects of wholesale lending to firms.' Found that firms accessed external funding with the belief that the funds will help ease cash flow management , generate more institutional income. The study found out that with the borrowed capital ,firms were able to increase their loan portfolios thus generating more income from interest earned on the loans. In addition, with the increased capital, businesses were able to expand their outreach thus attracting new customers and retaining the current ones.

This led to an increase in revenue. Firms also benefited from funds in form of an improvement in capacity and ability of personnel. However, this study cautioned that companies can be successful with the use of external funds if they have qualified and dedicated management and governance teams, sensitized members, good policies and effective capacity building from outside sources. He concluded that external credit if used responsibly can help a strong company become stronger. However, the findings indicated that external funds would not help a weak firm become strong. This is in agreement with a survey conducted by FSD (2009) which revealed that firms borrowed outside funds in order to increase membership size since individuals would be drawn to an institution with accessible funds for loans.

A survey conducted by KUSCCO (2009) which indicated that majority of firms sought external credit in order to meet the demands of savings and withdrawals, loan disbursement and maintenance of operational expenses. The report attributed this scenario to financial mismanagement and undercapitalization of firms. Kimuyu and Omiti(2010) on the other hand, in their study found that lack of working capital is the most important reason for business closure. They recommended for businesses to seek affordable short term bank finance tailor –made to their ability to repay. They conclude that availability of external financing is crucial for business growth and ultimate profitability. Hansa (2009) in his study found out that, young organizations struggle to reach a critical size at which they can sustain themselves. He observes that outside funds can help such institutions to gain scale more quickly.

He further noted that most firms which are strong can easily be able to pay the interest on borrowed funds, cover loan losses, and still make a profit which can be added to retained earnings or distributed as dividends to members. The study recommends organizations to seek external financing. Chipembere (2010) observed that substantial outside funds changes the situation of struggling firms. This is especially when a firm receives external funds. The principle of self –help, by mobilizing member savings for lending is undermined and this he found leads to lax repayment discipline and eventual collapse of a firm. He held that the use of external funds is not the only cause of acceleration or deceleration in the capital structure of a company. The change in the capital structure whether positive or negative is more dependent on the management and governance structures and on the capacity building and support given to firms by external institutions through the injection of external funds.

Wanyama (2009) in his study "surviving liberalization" observes that most firms relied on external funding for on-lending not because they lacked enough capital but because of lack of financial management knowledge by managers and inability to compete with the mainstream financial institutions, mainly due to lack of market intelligence and research. This is in agreement with a study conducted by WOCCU which found out that most firms relied on external credit for on-lending. The survey indicated that this was because of the unstructured investments which have made it difficult for firms to meet the needs of their clients. The study further noted that the high loans extended to companies were not in line with their savings. The study recommends for a reduction in external borrowing. It is evident from the above that this research has similarities to the ones conducted by numerous other researchers. The most common similarity is the identical objective which was to determine the effect of external financing on financial performance of organizations. The difference was mainly on the demography of sample, which is the location and type of industry. This difference allowed comparisons which helped suggest possible factors behind poor performance of leveraged companies.

2.10Working capital cycle

1.5 What It Measures

The working capital cycle measures the amount of time that elapses between the moment when a business begins investing money in a product or service, and the moment the business receives payment for that product or service. This does not necessarily begin when it manufactures a product. Businesses often invest money in products when they hire people to produce goods, or when they buy raw materials, Petersen(2009)

1.6 Why It Is Important

A good working capital cycle balances incoming and outgoing payments to maximize working capital. Simply put, a firm needs to know whether it can afford to research, produce, and sell its product. A short working capital cycle suggests a business has good cashflow for example, a company that pays contractors in 7 days but takes 30 days to collect payments has 23 days of working capital to fund also known as having a working capital cycle of 23 days. If a firm collects money before it pays for goods it is said to have a negative working capital cycle and has more capital available to fund growth. For a business to grow, it needs access to cash and being able to free up cash from the working capital cycle is cheaper than other sources of finance, such as loans, Gertler(2009)

1.7 How It Works in Practice

The key to understanding a company's working capital cycle is to know where payments are collected and made, and to identify areas where the cycle is stretched and can potentially be reduced. The working capital cycle is a diagram rather than a mathematical calculation. The cycle shows all the cash coming in to the business, what it is used for, and how it leaves the business (i.e., what it is spent on), Gilchrist(2012)

2.11Cost drivers

A cost driver is the unit of an activity that drives the change of cost in production or servicing. It refers to any activity that causes a cost to be incurred. In traditional costing, the cost driver used to allocate overhead costs to cost objects relates to quantity of output. There are usually two main types of supporting cost. The first is a resource driver, which is the contribution of the quantity of resources used to cost an activity, such as one kilogram of flour for bread production and one operator hour for manufacturing work. Examples of an overhead cost and resource cost driver are electricity costs and the number of machine hours.

The second is an activity driver, which is the cost incurred by the activities required to complete a specific task. With changes in business structures, technology and related cost structures, output quantity is not the only cost driver. Examples of overhead costs and activity cost drivers are inspection costs and the number of inspections or the hours of inspection or production runs. These have no direct relationship with production volume, but they directly affect production costs through the activity measured, Himmelberg (2009)

In general the cost driver for short-term overhead costs may be the volume of output or activity. For long-term overhead costs, the cost drivers will not be related to volume of output or activity. Further investigation of these organizational activities and operational activities is required in order to examine the nature of the cost before designing the cost driver, Gomes (2010)

Organizational activities

There are two types of organizational activities for studying overhead cost structural and executional. Structural cost drivers relate to business strategic choices about an organization's underlying economic structure, such as scale and scope of operations, use of technology and complexity of products. Executional cost drivers relate to the execution of the business activities, such as utilization of employees, provision of quality service, and product design and manufacturing, Guerrieri (2012)

The structural and executional activities determine the nature and number of the daily activities performed in the company. If a company decides to manufacture more than one product at a plant, this structural choice will produce a need for scheduling, a product-level activity. Similarly, providing a plant layout defines the nature and extent of the materials handling activity. Although organizational activities determine operational activities, analysis of operational activities and cost drivers can be used to suggest strategic choices of organizational activities and cost drivers. For instance, the number of material moves as a measure of the materials moving activity by individual products suggests that resource spending can be reduced if the plant layout is redesigned to reduce the number of moves required, Lorenzoni (2011)

2.12GOING CONCERN

Auditing standards requiring auditors to issue going concern opinions have existed for several decades. However, research indicates the success with this standard has been somewhat spotty at best. Experiences, including signing audit partners, has been that it takes a significant amount of time, to carefully analyze a company's financial condition, liquidity and results of operations when objectively trying to determine if the company is going to last another year or not. The one year from the statement of financial position has been a very clear standard auditors' and companies fully understand. However, when a significant event would be due to occur shortly after that 12 month period, such as a major debt refinancing being due, or a major customer or vendor supply agreement concluding, it did make one nervous looking to just a twelve month period, Hennessy(2009)

Auditors will typically look at historical results in the last few years, especially trends in the last half and quarter of the year. That would include revenue trends, cash sources and uses, available cash and funding sources, etc. The auditor would look at budgets and projections for the next year, and require management to provide, and go over, their projections and key assumptions going into those projections. The auditor would try to get a handle on the risks in those projections and what things could go awry that would result in more negative results, than were being projected, Whited (2011)

2.13Summary

This chapter aims at exposing the literature review on the research topic. It covers various sources of external financing , its advantages and disadvantages, going concern of entities as well as cost drivers. The next chapter will be on research methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter weighs up the methods used in data collection, analysis and the staging plan for the research. The chapter outlines the complete process of the research: how this research was carried out; how the empirical analyses were arranged and; how the final output of the research is constructed and proposed. The starting point is the research design, research strategies, population, types of data, research instruments employed, in the study, data presentation, data analysis and summary.

3.1 Research Design

Churchill (2009) defines a research design as the framework or plan for a study used as a guide in collecting and analyzing data while Aaker (2010) defines a research design as a systematic step used to accomplish the purpose of the study. Accordingly a research design is the plan and structure of investigation conceived so as to obtain answers to research questions.

3.1.1 Descriptive research design

Descriptive research design comprises of interview, questionnaires and observations which enabled the researcher to obtain information to answer the research question. Babbie (2012) defined descriptive research as studies designed to obtain information directed towards determining the nature of a situation as it exists at the time of the study. It also accorded the research a chance to employ different data collection techniques since it provided an accurate description of the variables in the problem model.

Justification

It gave the researcher the opportunity to use both qualitative and quantitative data in order to find data about the financial position of HCCL. The study was also very flexible, the researcher selected the method depending on what she expected to find rather than selecting the method and then studying. The design removed barriers of strict academic approaches so that the researcher could witness how HCCLs employees experienced various events. It was useful in identifying further areas of research.

3.2 Research method

According to Silverman (2009), research method in social science can be defined as a systematic research process to study a specific social object with certain research techniques employed for such a purpose. Methods are techniques or procedures used to gather and analyze data related to some research questions or hypothesis. A research can never be fruitful or of any relevance if proper methods of collecting data has not been put in place. Crotty (2010) also defines methodology as the plans of action, strategies, processes or designs lying behind the choice and use of particular methods and linking the choice and use of methods to the desired outcomes. In the social science context, research methodology is commonly classified into two general formats, namely quantitative and qualitative research methodologies.

On the one hand, Leedy and Ormrod (2009) stated that, “qualitative research is one that is less structured in description because it formulates and builds new theories”. Furthermore, there are five areas of qualitative methods: case study, ethnography study, phenomenological study, grounded theory study, and content analysis. According to Williams (2011), these five areas are representative of research that is built upon inductive reasoning and associated methodologies.

On the other hand, Williams (2011) explained a quantitative research as a method which involves a numeric or statistical approaches to research design. The research itself is independent of the researcher. As a result, data is used to objectively measure reality. Quantitative research creates meaning through objectivity uncovered in the collected data. The methodology of a quantitative research maintains the assumption of an empiricist paradigm, Creswell (2009). Meanwhile, the qualitative researchers view social phenomena subjectively, work with the object, and attach the human aspects to explain the phenomena.

3.2.1)Case study

Lamnek (2010) defined a case study as a research strategy that investigates a phenomenon within its real life context. It is in between concrete data taking techniques and methodological paradigm.

Case study as a research instrument was utilized by the researcher in order to provide solutions for the research questions of external financing in times of poor liquidity. The case study data was gathered from different company's files, management minutes held and recommendations from reports.

The researcher approached HCCL both senior and junior management gathering data using structured interview questions. The researcher managed to attain optimum respondents from the interview about the most recent financial crisis revamping the company's operations.

Justification of a case study

The researcher made use of secondary data which is pregnant with detailed documented data from HCCL. It also gave room for the researcher to forward personal opinions acquiring skills and knowledge. Availed secondary data was used in challenging past philosophers theories. The researcher also gathered various solutions on rare phenomena in rigid issues.

3.2.2Justification of the research design

The researcher used both qualitative and quantitative research design. The researcher opted for this research design since it discloses relevant information from pre-determined responses which can be scaled down to suit research objectives. Quantitative research design is characterized with statistics which made it appropriate for the researcher to compare and evaluate given facts. Qualitative research design provided facts and statements which were useful to the researcher for decision making process.

3.3 Research Strategy

Having identified the research design, it becomes necessary to select suitable research strategy. Saunders , (2012) defined a research strategy as a general plan of how one goes about answering questions proposed.

This project used a deductive research strategy. It begins by reviewing the literature related to the various sources of external financing ,its advantages and disadvantages, going concern of entities as well as cost drivers. Then it analyzed and evaluated the application, facts, and figures with both quantitative and qualitative methods in an empirical research chapter.

3.4 Research Population

Population refers to a group of elements exhibiting more or less similar characteristics from which a researcher wishes to work a representative sample. A population is a group of individuals, persons, objects, or items from which samples are taken for measurement for example senior managers, middle managers and junior managers of HCCL represented the population in this study.

Plossy (2009) on the other hand, defines a population as any group of individuals, organizations, social interactions and events. It is the interest group from where the information is to be obtained.

The research used a population comprising senior managers, middle managers and junior managers of HCCL from which a sample was taken because the researcher could not obtain information from the whole population.

3.4.1 Sample

According to Pandey (2010) sampling refers to the selection of a representative subset of objectives or elements from a population to determine the characteristics of the random variables under investigation. The selected sample should be a true representation of the total population.

Table 3.4 sample size

Department	Targeted population	Sample size	% of total sampled
Finance	15	12	80
Engineering	10	8	80
Internal audit	5	4	80
Marketing	10	9	90
Supply chain	10	7	70

3.5 Types of Data

Cooper and Schindler (2009) define data as the facts presented to the researcher from the study environment. It is from this data that the researcher draws conclusions for the research study. Data is set into two forms namely primary and secondary data and the research gathered data from both sources. The methods of data collection are detailed below.

3.5.1 Primary data

According to Evans and Berman (2010) primary data consists of information gathered to address a specific issue or problem at hand. The research to a larger extend depended on primary data sources. Primary data sources are original sources from the field of study. Primary data encompasses information collected solely for this research and which was not applied to any prior subject.

Merits

The researcher collected data by making use of questionnaires. Data was current and it gave a realistic review to the researcher about the financial position of HCCL. The researcher had control over data, that is, questionnaires allowed the researcher to determine the data and how long it would take to get the data which enabled the researcher to focus on specific aspects of the research. Although data was difficult to collect and time consuming, it was adapted to the research problem and generally provided the most recent data possible. Data focused on specific issues only; hence, only data needed by the researcher was collected.

Demerits

The cost of organizing data was high since the researcher had to travel all the way to Hwange to distribute questionnaires to HCCLs managers. Some respondents might have given, fake and socially acceptable answers and try to cover up the realities. Collecting data was time consuming since there was need to make up preparations in order to handle different demands of the data collection processes.

3.5.2 Secondary data

This refers to the data available because they were collected for some other purposes other than solving the current problem, Kumar (2011) .This involves analysis of the existing data for further use and is obtained by means of a desk research .Included are the company's information, databases, financial statements, journals, reports (monthly, quarterly and yearly) and published reports. Collins and Hussey (2010) contends that the use of secondary data enables the research to find out what is already known on the topic, identify gaps and develop new ideas.

Advantages

Secondary data was the cheapest and easier means of access to information. The researcher took care in locating and to utilizing the data that was relevant to the study. Secondary data saved time and was cost effective as data was easy to obtain. The data provided information that the researcher had failed to obtain through interviews and questionnaires. It also provided unbiased data.

Disadvantages

The major disadvantage faced by the researcher whilst using secondary data was that some of the data was outdated and was initially collected for some other purposes thus a number of assumptions have to be made regarding its viability. The researcher put a lot of effort and concentration to separate relevant information from a bank of data. Some secondary data was of poor quality because the previous research was poorly conducted hence affecting the quality of the research.

3.6 Research Instruments

These are techniques used to gather standard information. For any research to be successful, it rests within the accuracy of the data collected. This can only be achieved through the use of appropriate instruments to draw the requisite information from the accurate source. Cheng (2012) believes that the absence of an interviewer would result in greater self- disclosure and hence greater credibility. The research uses the questionnaire and the interview as research instruments and they are discussed below.

3.6.1 Questionnaire

Weber (2011) defines a questionnaire as a list of questions that are given to the respondents so that they may answer in written form and send back the questionnaire to the researcher. Skinner (2009) defined a self-administered questionnaire as one in which the respondent fills in the questionnaire rather than the interviewer. Makasi (2011) defines a questionnaire as a formalized schedule, which contains an assembly of carefully formulated questions for information gathered. A questionnaire presents information in writing to the respondents and requires a written down response targeting information as per the research question. It is a list of question that are carefully formulated, constructed and sequenced so as to obtain the most useful data in a cost-effective manner.

The researcher presented a questionnaire with information to the respondents in writing and required the respondents to tick on the suggestion presented by filling in the blank spaces provided. In order to invite full responses from respondents and gather the required information closed end, clear, and concise but meaningful questions are used. Closed questions were used, as these required less time to fill, and were easy to answer and ensure that the respondents stuck to the matter addressed.

Advantages of questionnaires

Questionnaires proved to be cheaper data collection technique. They provided a better basis for comparison and measurement since each person responded exactly to the same question. The limiting factor of time was saved greatly since the questionnaires were sent out in time to different respondents. Since the respondents did not state their names, there was to be greater honesty responses that involve less fear of victimization from anyone.

Walters (2011) in support of this says the anonymous completion of questionnaires encourages an honest response. He elaborates that people often feel more comfortable expressing their feelings in writing.

Disadvantages of questionnaires

There was no clarification on ambiguous and unclear questions. Some questions had a tendency to direct the respondents to choose certain option(s) or answer(s), especially in the case of closed end questions. There was no control over who actually answered the questionnaire. Management might have delegated their subordinates to fill the questionnaires on their behalf. The respondents were unable to express their opinions or feelings beyond the questions stipulated in the questionnaires. There was failure to control and probe the respondents. Unlike interviews, the researcher was not in a position to tell the emotions of the respondent thus facial expressions and other non verbal clues could not be obtained.

3.6.2Types of questions

a. **Open ended questions**

Open ended questions are also known as free response or free answer questions. They do not provide the participant with a choice of answers. Participants are free to answer questions in the manner they choose, Williams (2011).

Merits

Participants were free to express themselves without limitations.

Demerits

This led to repetition; gathering of irrelevant information and misunderstanding of the intent of the question, consequently results were more difficult to analyze.

b. **Closed questions**

Closed ended questions are alternatively known as multiple choice questions whereby the respondent chooses an answer from a list of alternatives.

Merits

The questions were easier to answer. Information was easier to analyze than open end questions.

Demerits

The participants could not wholly express themselves since they were confined to discrete answers.

c. **Likert scale questions**

These are survey questions that allow the user to choose the response that best represents opinion relative to a series of statements. There is a minimum of one and maximum of 10 choices of each question, Babbie (2012) this can consists of strongly agree and strongly disagree as end points. The respondents can be asked to indicate their degree of agreements by checking one of the five responses categories, strongly agree, strongly disagree ,agree, disagree and indifferent.

Advantages

It was easy for the researcher to construct and administer this scale and also for the respondent to understand; therefore it was suitable for mail and personal surveys. Likert scale questions showed the strength of the person's feelings to whatever was in the questions.

Disadvantages

Some participants might not have been completely honest. Some participants might have based their answers on feelings towards the surveyor or subject. Some participants answered according to what they felt was expected of them as participants

3.6.3 Interviews

Weber (2009) defines interviews as face to face meeting between the interviewer and the interviewee. The researcher used personal interviews to collect data through conversations face to face with respondents. The researcher prepared questions before the interviews. This approach was adapted for the research because of its ability to enable the interviewer to verify facts and the use of body language. Semi-structured interviews were carried using an interview guide as a common base for all the interviews with variations to suit the scope of responsibilities of each manager of HCCL.

Advantages of interviews

Interviews proved to be a better tool for the sequencing of information. The researcher had the opportunity to clarify questions to ensure that respondents will understand them. It was intense probing which enabled the researcher to obtain answers to questions that were difficult to interpret. The researcher had greater control over the area that the survey was administered.

Detailed responses were asked for clarification on some of the questions.

Disadvantages of interviews

Confidential information was not clearly reviewed during the interviews. Some respondents were unable to meet their scheduled appointments for an interview due to work commitments. It was also time consuming as the researcher had to wait for long periods, waiting for the interviewees to be free.

3.7 Data Collection Procedures

The researcher personally distributed the questionnaires to HCCL managers and accountants. Questionnaires were submitted online. Respondents were given a period of two to four days to complete the questionnaires. The distribution of questionnaires ensured a hundred percent return rate. The researcher did the collection of completed questionnaires personally.

The researcher also made appointments with the respondents chosen for the interviews. Questions for the interview were set well ahead of time. The respondents selected for the interview were managers and accountants of HCCL.

3.8 Data presentation

After data has been collected it had to be presented in a visual appealing fashion. Data was presented in a manner that communicated the maximum information in the most efficient manner. The collected data was presented in the form diagrams, tables, pie charts sand descriptive narration. This aimed at aiding in the interpretation and analysis of the collected data. The use of such procedures put the research into perspective by converting data into information and knowledge and explored the relationship between variables. The excel software package was used for data analysis due to its flexibility and multipurpose usefulness.

3.9 Data Analysis

According to Blumberg (2009) data analysis is the process of evaluating data using analytical and logical reasoning to examine each component of the data provided. Frequencies and percentages were used in analysing and interpreting the data.

3.10 Tables

These consist of rows and columns. The researcher used tables because some of the data that was collected was contingent hence there was a need to use contingence tables.

3.11 Summary

In this chapter, questionnaires and interviews were the main methods of data collection used to gather relevant data in order to achieve the main objective of the research topic. Desk research was used as a complementary technique for data collection. Both qualitative and quantitative techniques were used to represent the data. The data gathered by the above methods was presented and analysed in the next chapter which is chapter four.

CHAPTER 4

Data presentation, analysis and interpretation

4.0) Introduction

This chapter focuses on presenting data, analyzing, interpreting research results collected from various respondents as indicated on questionnaires and interviews outcomes. The researcher analyzed data using statistical computations while diagrammatically presenting on tables, charts and graphs. Research results fulfil research objectives in Chapter One. Lastly is the summary which ends research results.

4.1) Analysis of response rate

The researcher used questionnaires and interviews in gathering research. Administration of questionnaires was done on personal face-to-face delivery and collection basis while interviews were conducted on a face-to-face basis.

4.1.1 (a) Questionnaire response rate

The researcher managed to sample 40 people in which 35 complied and completed the questionnaires, thus showing 88% response rate which is sufficient to represent the selected sample size as indicated below.

Table 4.1Questionnaire response rate

Department	Target respondents	Actual respondents	Response rate
Finance	12	10	83%
Engineering	8	7	88%
Internal audit	4	4	100%
Marketing	9	8	89%
Supply chain	7	6	86%
Total	40	35	88%

The above table illustrates the issued questionnaire outcomes indicating that not all respondents comply with disbursed questionnaires due to certain undisclosed reasons. Mouton (2009) indicated that 50% stand as the rule of thumb on questionnaire response rate.

The outcomes in table 4.1 are above the expected sample size of 50%. Five respondents apologized on unanswered questionnaires due to extra work commitments. The selected sample size is sufficient enough to represent the whole population.

4.2) Background information

4.2.1) Duration in the organization

The researcher included employee duration in the organization in order to assess how the respondents have been associated and involved with company funding policies procedures. Below is an analysis of employee duration with the firm.

The table 4.2 illustrates employee duration in the organization

	0-3 years	3-5 years	5-10 years	+10years	Total
No of respondents	3	10	20	2	35
% outcome	9%	29%	57%	6%	100%

Table 4.2 indicates that, 3/35(9%) have worked 3 years, 10/35(29%) have worked 3-5 years only, 20/35 (57%) have worked 5-10years and 2/35 (6%) have worked 10 years and above. The above information can be interpreted as, 22/35 (63%) have worked for more than 5 years at HCCL while 13/35(37%) have worked less than 5 years. This shows that majority of the staff have sufficient experience and knowledge with the company funding policy and have been associated with the policies for quite some reasonable time. Perrot (2011) says that employee duration is crucial when carrying out research because it guarantees research validity and relevance thereby making it reliable for use.

4.3) Level of academic qualifications

Academic qualification assists in justifying the respondent's level of understanding which avoids personal misjudgments. It acts as a measuring standard which confirms how respondents can comprehend the subject under study.

Below is an analysis of employee academic qualifications in rankings.

Table 4.3 illustrates level of academic qualifications

	A Level	Diploma	Degree	Masters	Others	Total
No of respondents	0	10	20	5	0	35
% outcome	0	29%	57%	14%	0	100%

Table 4.3 shows that 10/35(29%) have diplomas, 20/35 (57%) have degrees while 5/35(14%) have masters. This shows that 35/35 (100%) staff are qualified since they have at least attained a diploma or a degree. Aiyagari (2009) emphasizes that when carrying out a research the sample should consist of people who are well versed with the subject at hand and therefore in this case all the respondents were qualified and knowledgeable hence making the research study to be reliable.

KEY

SA-Strongly Agree

A-Agree

U-Uncertain

D-Disagree

SD-Strongly Disagree

4.4) HCCL is performing well financially

Table 4.4 illustrates whether HCCL is performing well or not

	SA	A	U	D	SD	Total
Respondents	0	0	0	17	18	35
% outcome	0	0	0%	49%	51%	100%

Fig 4.4 illustrates on HCCLs performance on a pie chart

Table 4.4 above shows that 18/35(51%) strongly disagreed, 17/35 (49%) disagreed while0/35 (0%) is uncertain while 0/35 (0%) agreed and 0/35 (0%) strongly agreed that HCCL is performing well financially. The above information shows that 35/35 (100%) disagreed while

0/35 (0%) agreed. It can be said that HCCL is not performing well financially. All respondents from interviews question no 1 disagreed that colliery is performing well financially thereby supporting the 2013 financial statements which were published by HCCL shown in table 4.20 which showed a decrease in revenue as well as profits of HCCL with HCCL recording a loss of $30.9 m in 2013.

4.5)Will external financing help resurrect HCCL from a distressed financial position

Table 4.5 illustrates whether external financing can help improve HCCLs performance

	SA	A	U	D	SD	Total
Respondents	30	5	0	0	0	35

Fig 4.5 illustrates whether external financing can help resurrect HCCL from a distressed financial position

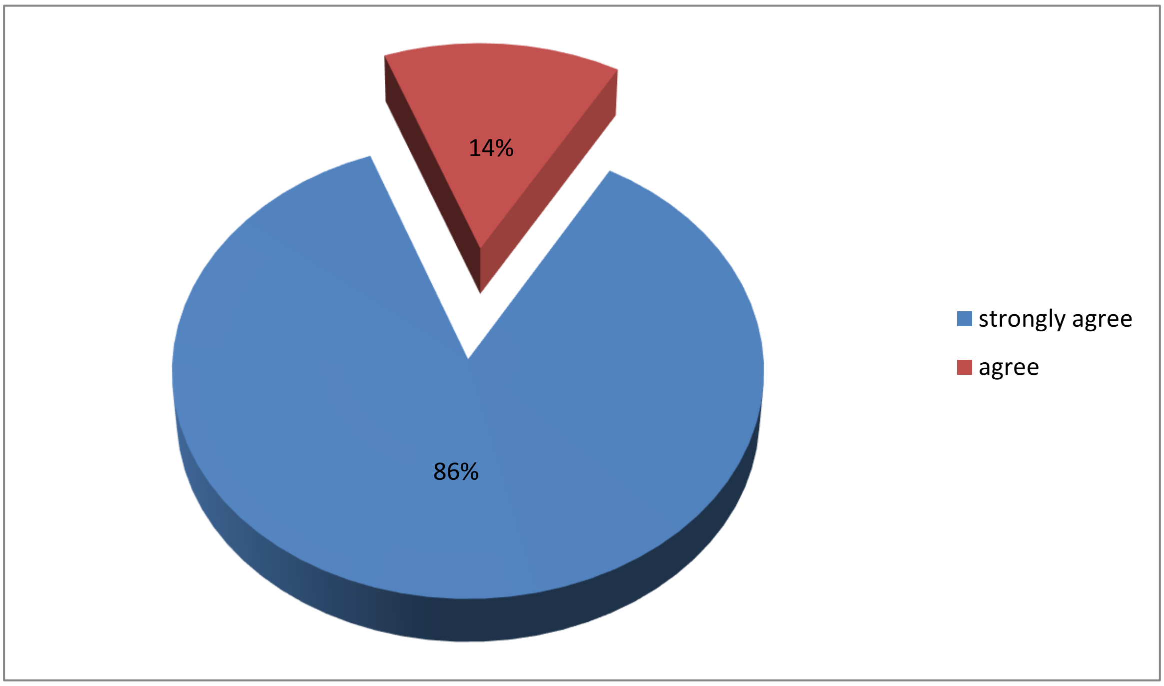


Fig 4.5 above shows that 0/35(0%) strongly disagreed, 5/35 (14%) disagreed while0/35 (0%) is uncertain while 0/35 (0%) agreed and 30/35 (86%) strongly agreed that HCCL financial position can be improved by external financing. 86% agreed hence supporting Miranda (2009) who suggested that, external funding helps improve a firms financial position in that it allows the firm to use internal financial resources for other purposes for instance a firm can

set aside its internal financial resources for cash payments to suppliers, which can help improve the company's credit rating. All respondents from interviews question no 2 agreed that external financing would improve HCCLs performance.14% disagreed supporting (Roberts 2011) who said that for a company, external financing may come from the issuance of new stock which can decrease the owner's equity meaning loss of ownership. It can be said that external financing can help resurrect HCCL from a distressed financial position.

4.6)External funding is sourced by

Table 4.6 The personnel responsible for sourcing funds for HCCL

	SA	A	U	D	SD	Total
Finance director	8	26	1	0	0	35
% outcome	23%	74%	3%	0	0	100%
Finance manager	10	25	0	0	0	35
% outcome	29%	71%	0	0	0	100%
Financial Accountant	0	4	6	23	2	35
% outcome	0	11%	17%	66%	6%	100%
Board of directors	6	29	0	0	0	35
%outcome	17%	83%	0	0	0	100%

(i) Finance Director

Table 4.6 shows that 8/35 (23%) strongly agreed, 26/35 (74%) agreed that the finance director is responsible for sourcing funds for HCCL while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that the finance director is responsible for sourcing funds for HCCL. The above information can be interpreted as 35/35 (100%) agreed while 0/35(0%) disagreed. It can be concluded that the finance director is responsible for sourcing funds for HCCL.

(ii) Finance manager

Table 4.6 shows that 10/35 (29%) strongly agreed, 25/35(71%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that the finance manager is responsible for sourcing funds for HCCL. The above can be interpreted as 35/35 (100%) agreed while 0/35 (0%) disagreed. It can be concluded that the finance manager is responsible for sourcing funds for HCCL

(iii) Financial accountant

Table 4.6 shows that 0/35(14%) strongly agreed, 4/35 (11%) agreed while 6/35(17%) is uncertain, 23/35 (66%) disagreed and 2/35 (6%) strongly disagreed that the financial accountant is responsible for sourcing funds for HCCL. The results above show that 4/35 (11%) agreed while 31/35 (89%) disagreed. It can be said that the financial accountant is not responsible for sourcing funds for HCCL.

(iv) Board of directors

Table 4.6 shows that 6/35 (17%) strongly agreed, 29/35(83%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that the board of directors is responsible for sourcing funds for HCCL. The results above can be interpreted as 35/35 (100%) agreed while 0/35 (0%) disagreed. It can be concluded that the board of directors is involved in formulating funding decisions at HCCL

Kielmas (2012) recommended that, duties are supposed to be authorized and executed by different personnel. This reduces all potential window dressing ideas, potential theft and fraudulent activities in executing duties since a preview of all tasks is guaranteed. In HCCL funds are not sourced by one office but they are sourced by the finance manager, finance director and the board of directors.

4.7) HCCLs funding policy is formulated, implemented and reviewed by

Table 4.7 Illustrates personnel responsible for formulating HCCLs funding policy

	SA	A	U	D	SD	Total
Finance director	20	15	0	0	0	35
% outcome	57%	43%	0	0	0	100%
Finance manager	18	15	2	0	0	35
% outcome	51%	43%	6%	0	0	100%
Financial Accountant	5	5	0	10	15	35
% outcome	14%	14%	0	29%	43%	100%
Board of directors	19	15	1	0	0	35
%outcome	54%	43%	3%	0	0	100%

(i) Finance Director

Table 4.7 shows that 20/35 (57%) strongly agreed, 10/35 (43%) agreed that the finance director formulates funding policies while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that the finance director formulates funding policies. The above information can be interpreted as 35/35 (100%) agreed while 0/35(0%) disagreed.

(ii) Finance manager

Table 4.7 shows that 18/35 (51%) strongly agreed, 15/35(43%) agreed while 2/35 (6%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that the finance manager formulates funding policies..The above results can be interpreted as 33/35 (94%) agreed while 2/35 (6%) disagreed.

(iii) Financial accountant

Table 4.7 shows that 5/35(14%) strongly agreed, 5/35 (14%) agreed while 0/35(0%) is uncertain, 10/35 (29%) disagreed and 15/35 (43%) strongly disagreed that the financial accountant formulates funding policy at HCCL. The above shows that 10/35 (29%) agreed while 25/35 (71%) disagreed.

(iv) Board of directors

Table 4.7 shows that 19/35 (54%) strongly agreed, 15/35(43%) agreed while 1/35 (3%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that the board of directors formulates funding policies. The above results can be interpreted as 34/35 (97%) agreed while 1/35 (3%) disagreed.

The show that funding policies are formulated and implemented by more than one office which supports what was said by Pandey (2012) that management should segregate duties that is delegating responsibility and accountability which result in standardizing controls over formulation, implementation and reviewing existing funding policies.

4.8)Is HCCL succeeding to access external loans?

Table 4.8 illustrates whether HCCL is succeeding to access external loans

	SA	A	U	D	SD	Total
Respondents	0	1	2	22	10	35
% outcome	0%	3%	6%	62%	29%	100%

Fig 4.8HCCL is succeeding to access external loans or not

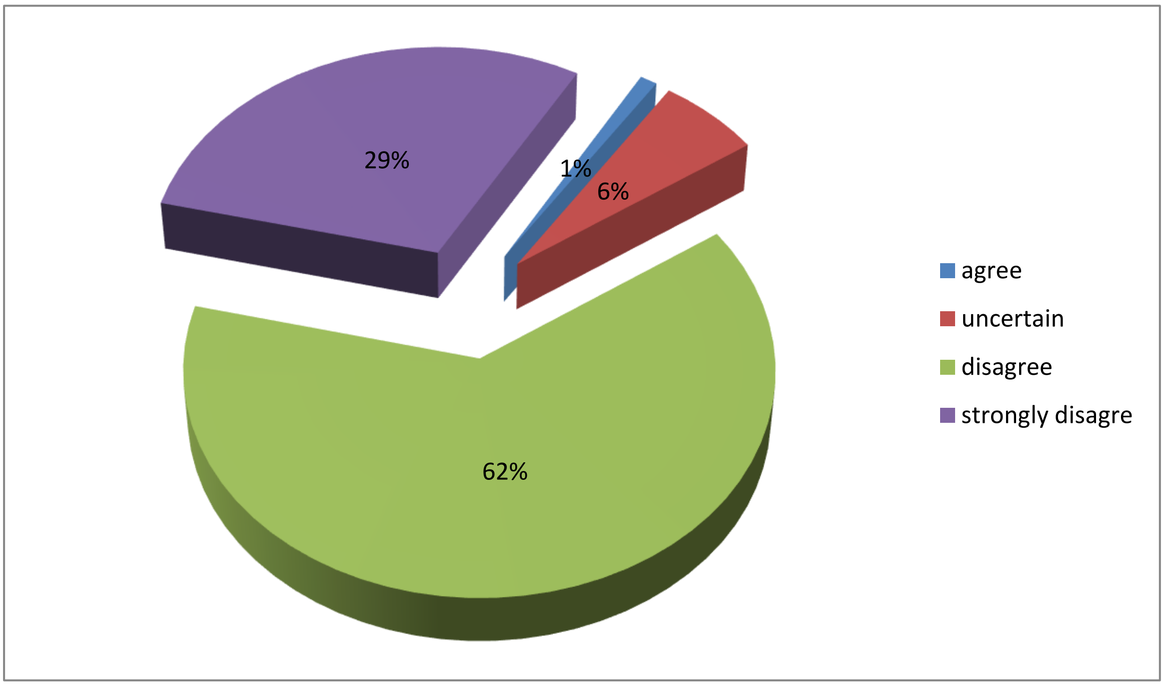


Fig 4.8 above shows that 10/35(29%) strongly disagreed, 22/35 (62%) disagreed while2/35 (6%) is uncertain while 1/35 (3%) agreed and 0/35 (0%) strongly agreed that HCCL financial position can be improved by external financing. The above information shows that 34/35 (97%) disagreed while 0/35 (0%) agreed. All respondents from interviews question no 3 disagreed that HCCL is succeeding to access loans. Hellwig (2009) supports the 97% who disagreed with the view that HCCL is not succeeding in accessing loans. He said that it is difficult for firms in a distressed financial position to access loans. It can be concluded that HCCL is failing to access external loans.

4.9) HCCL sources of funding

Table 4.7 illustrates an analysis of sources of funding employed by HCCL

	SA	A	U	D	SD	Total
Short term debt	20	14	1	0	0	35
% outcome	57%	40%	3%	0	0	100%
Long term debt	14	19	2	0	0	35
% outcome	40%	54%	6%	0	0	100%
Retained profits	0	1	16	14	4	35
% outcome	0	3%	46%	40%	11%	100%

(i) Short term debt

Table 4.8 indicates that 20/35 (57%) strongly agreed, 14/35 (40%) agreed while 1/35 (3%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that short term debt is source of funding operations. The above information shows that 34/35 (97%) agreed while 1/35(3%) disagreed.

(ii) Long term debt

Table 4.8 illustrates that 14/35 (40%) strongly agreed, 19/35 (54%) agreed while 2/35(6%) is uncertain, 0/35 (0%) disagreed and 0/35(0%) strongly disagreed that long term debt is a source of funding at HCCL. The above results show that 33/35(94%) agreed while 2/35(6%) disagreed.

(iii) Retained Profits

Table 4.8indicates that 0/35 (0%) strongly agreed, 1/35(3%) agreed while 16/35 (46%) is uncertain, 14/35 (40%) disagreed and 4/35 (11%) strongly disagreed that profit recapitalization is a source of funding operations. Evaluating the above information, 1/35 (3%) agreed while 34/35 (97%) disagreed.

Fuerst (2009) identified the main sources of funds for companies as being short term debt and long term debt hence supporting those who agreed that HCCL uses the following sources of finance: short term debt and long term debt . Secondary data in table 4.20 shows that HCCL had a loss of $30.9m hence there would be no retained profits for 2014.

4.9)Should HCCL open new credit lines with financial institutions which offer more favourable interests?

Table 4.9 illustrates whether HCCL should open new credit lines with financial institutions which offer more favourable interests

	SA	A	U	D	SD	Total
Respondents	15	20	0	0	0	35
% outcome	43%	57%	0%	0%	0%	100%

Fig 4.9 illustrates whether HCCL should open new credit lines with financial institutions which offer more favourable interests

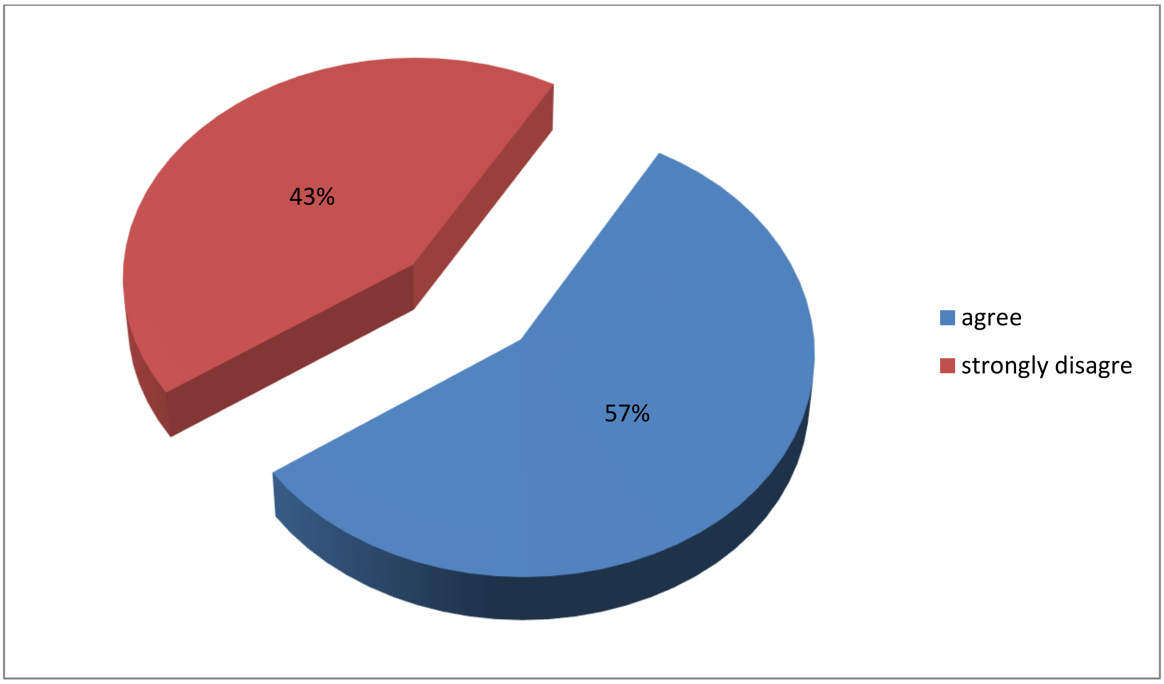


Fig 4.9 above shows that 0/35(0%) strongly disagreed, 0/35 (0%) disagreed while0/35 (0%) is uncertain while 20/35 (57%) agreed and 15/35 (43%) strongly agreed that HCCL should open new credit lines with financial institutions which offer more favourable interests. Carlstrom suggested that firms should consider whether the lender has favourable terms before agreeing to receive a loan from the lender. This supports the 57% who agreed that

HCCL should open new credit lines with financial institutions which offer more favourable interests. It can be concluded that HCCL should open new credit lines with financial institutions which offer more favourable interests.

4.10) HCCL is complying with due borrowing costs

Table 4.10 illustrates an analysis on borrowing costs

	SA	A	U	D	SD	Total
Respondents	0	0	0	25	10	35
% outcome	0%	0%	0%	71%	29%	100%

Pie chart on fig 4.10 depicts an analysis on borrowing costs

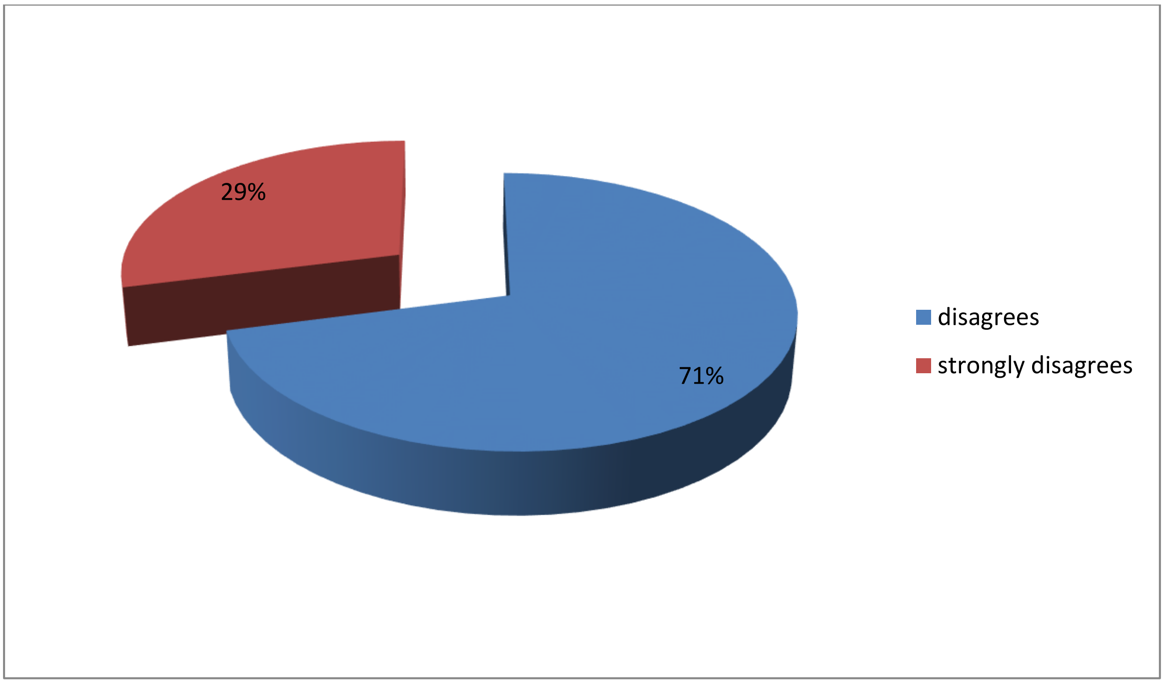


Fig 4.10 shows that 0/35(0%) strongly agreed, 0/35(8%) agreed while 0/35(0%) is uncertain, 25/35 (71%) disagreed and 10/35(29%) strongly disagreed that HCCL is complying in paying back due borrowing costs. above shows that 0/35 (0%) agreed while 35/35 (100%) disagreed. All respondents from interviews question no 5 disagreed that HCCL is complying with borrowing costs. The cashflow statement extract in table 4.20 shows an increase in finance costs due to interest charges being charged on borrowed funds which are not being repaid.100% disagreed that HCCL is complying with borrowing costs, this is supported by Weber (2011) who observed that most companies in financial distress find it difficult to

obtain external loans because of their inability to pay back due borrowing costs on time. It can be concluded that HCCL is failing to pay back due borrowing costs.

4.11)Is HCCL a going concern entity?

Table 4.11 illustrates whether HCCL is a going concern entity

	SA	A	U	D	SD	Total
Respondents	0	5	13	15	2	35
% outcome	0%	14%	37%	43%	6%	100%

Table 4.11 shows that 0/35(0%) strongly agreed, 5/35(14%) agreed while 13/35(37%) is uncertain, 15/35 (43%) disagreed and 2/35(6%) strongly disagreed that HCCL is a going concern. above shows that 5/35 (14%) agreed while 30/35 (86%) disagreed. on interviews shows that0/4(0%) agreed while 35/35(100%) disagreed. 100% disagreed that HCCL is a going concern entity hence supporting Whited (2011) who said that when auditors are deciding on going concern issues they try to get a handle on the risks in the financial statements and analyse things which could go awry that would result in more negative results, than were being projected, Whited (2011) hence the continuous trends of negative results being shown by HCCLs extract of financial statements in table 4.20 show that the company is most likely to cease being a going concern entity.The above results show that HCCL is not a going concern entity.

4.12)Effective cash management has assisted the company meet the day to day expenses of the business and avoid the risk of insolvency

Table 4.12 illustrates whether effective cash management has assisted the company meet the day to day expenses of the business and avoid the risk of insolvency

	SA	A	U	D	SD	Total
Respondents	13	22	0	0	0	35
% outcome	37%	63%	0%	0%	0%	100%

Fig 4.12 shows that 13/35(37%) strongly agreed, 22/35(63%) agreed while 0/35(0%) is uncertain, 0/35 (0%) disagreed and 0/35(0%) strongly disagreed that HCCL is a going

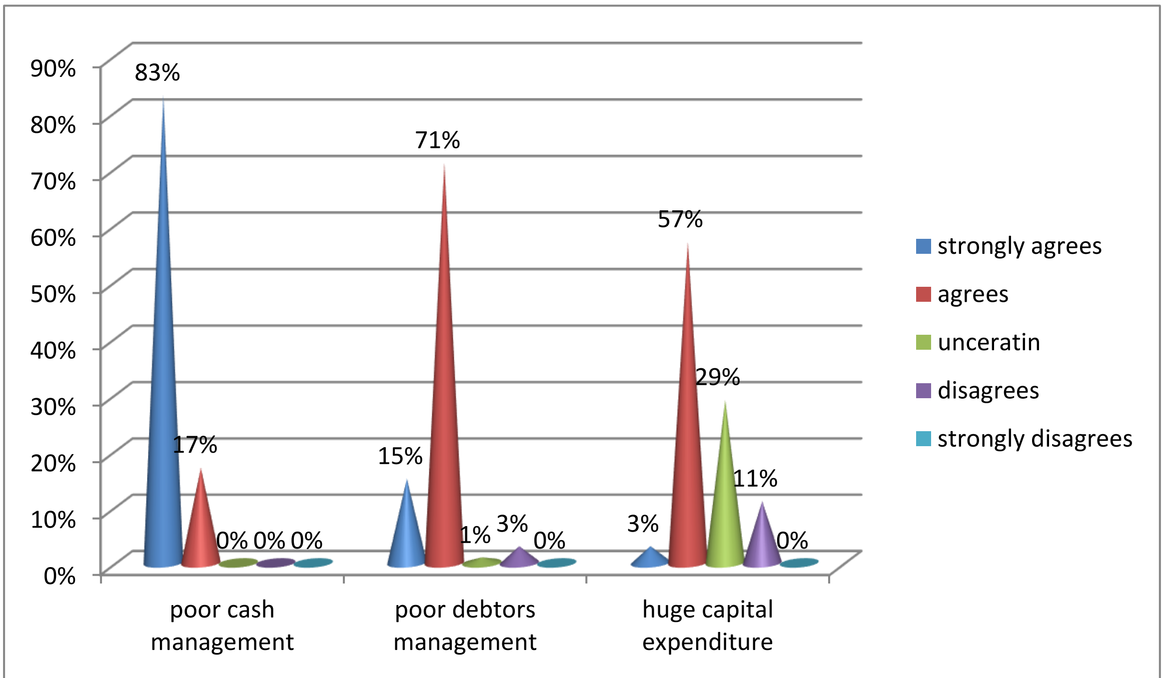
concern.The above show that effective cash management has assisted the company meet the day to day expenses of the business and avoid the risk of insolvency.

4.13) HCCLs financial position indicates a risk of insolvency arising from:

Table 4.13 illustrates that HCCLs financial position indicates a risk of insolvency arising from

	SA	A	U	D	SD	Total
Poor cash management	29	6	0	0	0	35
% outcome	83%	17%	0	0	0	100%
Poor debtors management	5	25	4	1	0	35
% outcome	15%	71%	11%	3%	0	100%
Huge capital expenditure	1	20	10	4	0	35
% outcome	3%	57%	29%	11%	0	100%

Fig 4.13 illustrates that HCCLs financial position indicates a risk of insolvency arising from poor cash management, poor debtors management and huge capital expenditures.



(i) Poor cash management

Fig 4.13shows that 29/35 (83%) strongly agreed, 6/35 (17%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that HCCLs financial position indicates a risk of insolvency arising from poor cash management. The above information shows that 35/35(100%) agreed.

(ii) Poor debtors management

Fig 4.13 shows that 5/35 (15%) strongly agreed, 25/35 (71%) agreed that HCCLs financial position indicates a risk of insolvency arising from poor cash management while 4/35 (11%) is uncertain, 1/35 (3%) disagreed and 0/35 (0%) strongly disagreed. The above information shows that 34/35 (97%) agreed while 1/35(3%) disagreed.

(iii) Huge capital expenditure

Fig 4.13 illustrates as 1/35 (3%) strongly agreed, 20/35 (57%) agreed that HCCLs financial position indicates a risk of insolvency arising from huge capital expenditure while 10/35 (29%) is uncertain, 4/35 (11%) disagreed and 0/35 (0%) strongly disagreed. The above information shows that 31/35 (89%) agreed while 4/35 (11%) disagreed. Research showed that HCCLs financial position indicates a risk of insolvency arising from poor cash management, poor debtors management and huge capital expenditure. This is supported by Reenwood (2011) who identified factors which put firms at a risk of being insolvent as being the following poor cash management, poor debtors management and huge capital expenditure.

4.14) Factors considered by lenders when lending funds to a company

Table 4.14 illustrate outcomes for factors considered by lenders before lending funds to a company.

	SA	A	U	D	SD	Total
Repayment policy	22	13	0	0	0	35
% outcomes	63%	37%	0	0	0	100%
Collateral security	16	19	0	0	0	35
% outcomes	46%	54%	0	0	0	100%
Market trends	10	23	0	2	0	35
%outcomes	29%	66%	0	6%	0	100%
Level of borrowings	18	17	0	0	0	35
% outcomes	51%	49%	0	0	0	100%

(i) Repayment policy

Table 4.14 shows that 22/35(63%) strongly agreed, 13/35 (37%) agreed that repayment policy is considered when increasing corporate liability while 0/35(0%) uncertain, 0/35(0%) disagreed and 0/35 (%) strongly disagreed. The information above shows that 35/35 (100%) agreed while 0/35 (0%) disagreed. It can be concluded that repayment policy is a factor considered by lenders when lending funds to a company.

(ii) Collateral security

Table 4.14 illustrates that 16/35 (46%) strongly agreed, 19/35 (54%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that collateral security is a factor considered when lending funds to a company. The information can be interpreted as 35/35(100%) agree and 0/35(0%) disagree. Collateral security is a factor lenders consider when lending funds to a company.

(iii) Market trends

Table 4.14 shows that 10/35(29%) strongly agreed, 23/35 (66%) agreed while 0/35 (0%), 2/35(6%) is uncertain and 0/35 (0%) disagreed and0/35(0%) strongly disagreed that market trends is a factor lenders consider when lending funds to a company. The information on table 4.14 shows that33 /35 (94%) agreed while 2/35(6%) disagreed. It can be concluded that market trends is a factor lenders consider when lending funds to a company.

(iv) Level of borrowings

Fig 4.14 shows that 18/35 (51%) strongly agreed and 17/35 (49%) agreed that level of borrowings is a factor lenders consider when lending funds to a company while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35(%) strongly disagreed. The information above shows that 35/35(100%) agreed while 0/35(0%) disagreed. Level of borrowings is a factor lenders consider when lending funds to a company. Davis(2010) supported the above by saying that factors lenders consider before lending funds to firm comprise of the following factors, market trends, level of borrowings, collateral security and repayment policy.

4.15) HCCLs major cost drivers

Table 4.15 illustrates HCCLs major cost drivers

	SA	A	U	D	SD	Total
Salaries	18	17	0	0	0	35
% outcome	51%	49%	0	0	0	100%
Repairs and maintenance	10	20	5	1	0	35
% outcome	29%	57%	14%	3%	0	100%
Fuel, oil and lubricants	15	10	6	4	0	35
% outcome	43%	29%	17%	11%	0	100%
Finance costs	29	6	0	0	0	35
% outcome	83%	17%	0	0	0	100%

(i) Salaries

Table 4.15 shows that 18/35 (51%) strongly agreed, 17/35(49%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that salaries are a major cost driver at HCCL. The above information shows that 35/35(100%) agreed and 0/35 (0%) disagreed.

(ii) Repairs and maintenance

Table 4.15 shows that 10/35 (29%) strongly agreed, 20/35(57%) agreed while 5/35 (14%) is uncertain, 1/35 (3%) disagreed and 0/35 (0%) strongly disagreed that repairs and maintenance are a major cost driver at HCCL. The above information shows that 34/35(97%) agreed and 1/35 (3%) disagreed. It can be concluded that repairs and maintenance are a major cost driver at HCCL.

(iii) Fuel, oil and lubricants

Table 4.15 shows that 15/35 (43%) strongly agreed, 10/35(29%) agreed while 6/35 (17%) is uncertain, 4/35 (11%) disagreed and 0/35 (0%) strongly disagreed that fuel, oil and lubricants are a major cost driver at HCCL. The above information shows that 34/35(97%) agreed and 1/35 (3%) disagreed. It can be concluded that fuel, oil and lubricants are a major cost driver at HCCL.

(iii) Finance costs

Table 4.15 shows that 29/35 (83%) strongly agreed, 6/35(17%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that finance costs are a major cost driver at HCCL. The above information shows that 35/35(100%) agreed and 0/35 (0%) disagreed. It can be concluded that finance costs are a major cost driver at HCCL.

Respondents from interviews identified the major cost drivers of HCCL as comprising of salaries, finance costs, repairs and maintenance as well as fuel, oil and lubricants. Dunne (2009) supports the above by identifying the major cost drivers in mining companies as being salaries, finance costs, repairs and maintenance as well as fuel, oil and lubricants.

4.16) HCCLs machinery repairs are made on

Table 4.16 below illustrate that HCCLs machinery repairs are made on

	SA	A	U	D	SD	Total
Quarterly basis	21	10	4	0	0	35
% outcome	60%	29%	11%	0	0	100%
Half yearly basis	22	13	0	0	0	35
% outcome	63%	31%	3%	3%	0	100%
Annual basis	20	10	3	2	0	35
% outcome	57%	29%	9%	6%	0	100%
Seldom basis	0	0	0	25	10	35
% outcome	0	0	0	71%	29%	100%
Not at all	0	0	0	7	28	35
% outcome	0	0	0	20%	80%	100%

(i) Quarterly basis

Table 4.16 shows that 21/35 (60%) strongly agreed, 10/35 (29%) agreed while 4/35 (11%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that HCCLs machinery repairs are made on a quarterly basis. The above shows that 31/35(89%) agreed and 4/35(11%) disagreed. It can be concluded that HCCLs machinery repairs are made on quarterly basis.

(ii) Half yearly basis

Table 4.16 shows that 22/35 (63%) strongly agreed, 13/35 (37%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that HCCLs machinery repairs are made on half yearly basis. The information above shows that 35/35 (100%) agreed. It can be concluded that HCCLs machinery repairs are made on a half yearly basis at HCCL

(iv) Seldom basis

on table 4.16 shows that 0/35 (0%) strongly agreed, 0/35 (0%) agreed while 0/35 (0%) is uncertain, 25/35 (71%) disagreed and 10/35 (0%) strongly disagreed that HCCLs machinery is seldomly repaired. The above information shows that 35/35 (100%) disagreed. The finding above can be concluded as, HCCLs machinery is not seldomly repaired.

(v) Not at all

Table 4.16 shows that 0/35 (0%) strongly agreed, 0/35 (0%) agree while 0/35 (0%) is uncertain, 7/35 (20%) disagreed and 28/35 (80%) strongly disagreed that HCCL repair their machinery on a“not at all” basis.The above information shows that 35/35 (100%) disagrees.

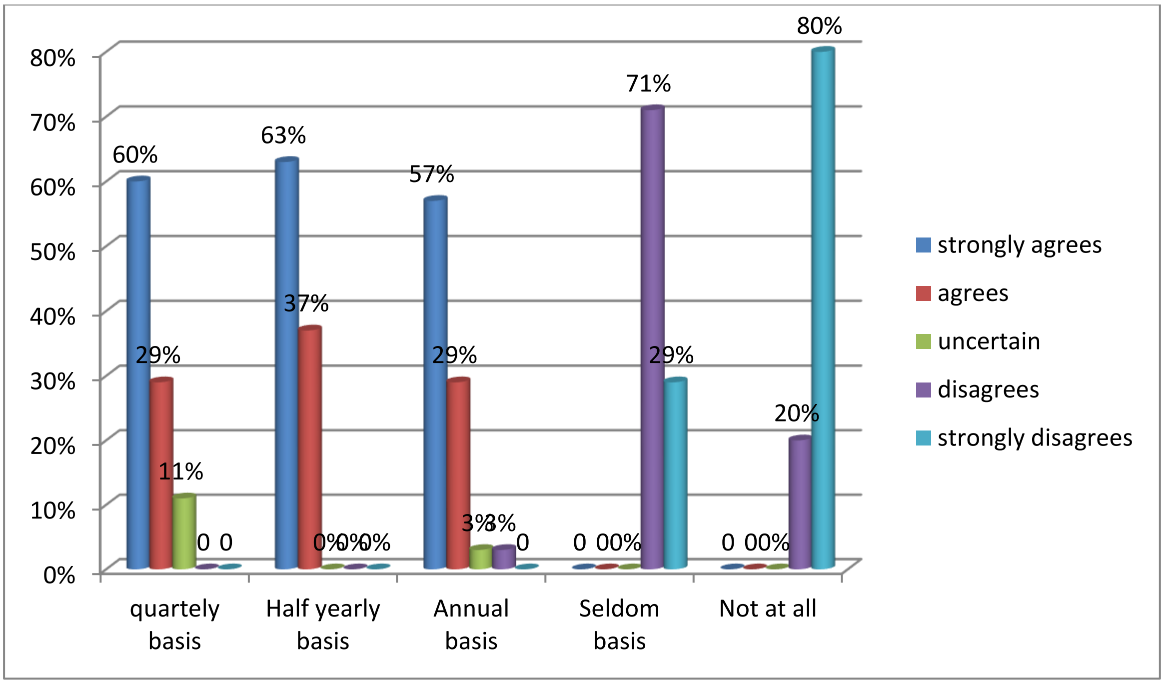
It can be concluded that HCCL repairs its machinery on a quarterly basis, half yearly and annual. Samuelson (2012) suggested that machinery should be taken for repairs at a frequent basis so as to avoid asset deterioration which might decrease levels of production. This supports the above since most agreed that HCCLs machinery is taken for repairs on a quarter basis, half yearly and annual.

4.17) HCCLs machinery is taken for maintenance on

Bar graph 4.17 below illustrates that HCCLs machinery repairs are made on

Table 4.17 below illustrate that HCCLs machinery is taken for maintenance on

	SA	A	U	D	SD	Total
Quarterly basis	21	10	4	0	0	35
% outcome	60%	29%	11%	0	0	100%
Half yearly basis	22	13	0	0	0	35
% outcome	63%	31%	3%	3%	0	100%
Annual basis	20	10	3	2	0	35
% outcome	57%	29%	9%	6%	0	100%
Seldom basis	0	0	0	25	10	35
% outcome	0	0	0	71%	29%	100%
Not at all	0	0	0	7	28	35
% outcome	0	0	0	20%	80%	100%



(i) Quarterly basis

Fig 4.17 shows that 21/35 (60%) strongly agreed, 10/35 (29%) agreed while 4/35 (11%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that HCCLs machinery taken for maintenance on a quarterly basis. The above shows that 31/35(89%) agreed and 4/35(11%) disagreed. It can be concluded that HCCLs machinery taken for maintenance on quarterly basis.

(ii) Half yearly basis

Fig 4.16 shows that 22/35 (63%) strongly agreed, 13/35 (37%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that HCCLs machinery is taken for maintenance on half yearly basis. The information above shows that 35/35 (100%) agreed . It can be concluded that HCCLs machinery is taken for maintenance on a half yearly basis at HCCL

(iv) Seldom basis

on table 4.16 shows that 0/35 (0%) strongly agreed, 0/35 (0%) agreed while 0/35 (0%) is uncertain, 25/35 (71%) disagreed and 10/35 (0%) strongly disagreed that HCCLs machinery is seldomly repaired. The above information shows that 35/35 (100%) disagreed. The finding above can be concluded as, HCCLs machinery is not seldomly maintained.

(v) Not at all

Fig 4.16 shows that 0/35 (0%) strongly agreed, 0/35 (0%) agree while 0/35 (0%) is uncertain, 7/35 (20%) disagreed and 28/35 (80%) strongly disagreed that HCCL repair their machinery on a“not at all” basis. The above information shows that 35/35 (100%) disagrees .Interview shows that, 5/5(100%) disagreed while 0/5(0%) agreed that HCCL maintain their machinery on a“not at all” basis. It can be concluded that HCCL takes its machinery for maintenance.

Sharpe (2011) said that a policy of continued deferred maintenance of machinery may lead to higher costs and asset failure therefore firms should frequently take their machinery for maintenance. This support above which show that HCCLs machinery is taken for maintenance on a quarterly basis, half yearly and annually.

4.17) HCCLs working capital cycle is monitored by

Table 4.17 HCCLs working capital cycle is monitored by

	SA	A	U	D	SD	Total
Finance director	22	13	0	0	0	35
% outcome	63%	37%	0	0	0	100%
Finance manager	20	5	10	0	0	35
% outcome	57%	14%	29%	0	0	100%
Creditors controller	0	0	25	10	0	35
% outcome	0	0	71%	29%	0	100%

(i) Finance director

Table 4.17 shows that 22/35 (63%) strongly agreed, 13/35 (37%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35(0%) strongly disagreed that the finance director is responsible for monitoring working capital cycle. The above information shows that 35/35 (100%) agreed while 0/35 (0%) disagreed. It can be concluded that HCCL working capital cycle is monitored by the finance director

(ii) Finance manager

The on table 4.17 shows that 20/35(57%) strongly agreed, 5/35(14%) agreed that the finance manager monitors working capital cycle while 10/35(29%) is uncertain, 0/35 (0%) disagree and 0/35 (0%) strongly disagree. The above shows that25 /35 (71%) agreed and 10/35(29%) disagreed. Assessing the above, it can be concluded that the finance manager monitors HCCLs working capital cycle.

(iii) Creditors controller

Table 4.17 illustrates that 0/35 (0%) strongly disagreed, 0/35 (0%) agreed while 25/35 (71%) is uncertain, 10/35 (29%) disagreed and 0/35 (0%) strongly disagreed. The above information shows that 35/35(100%) disagreed. The above can be concluded as , the creditor's controller does not monitor HCCLs working capital cycle.

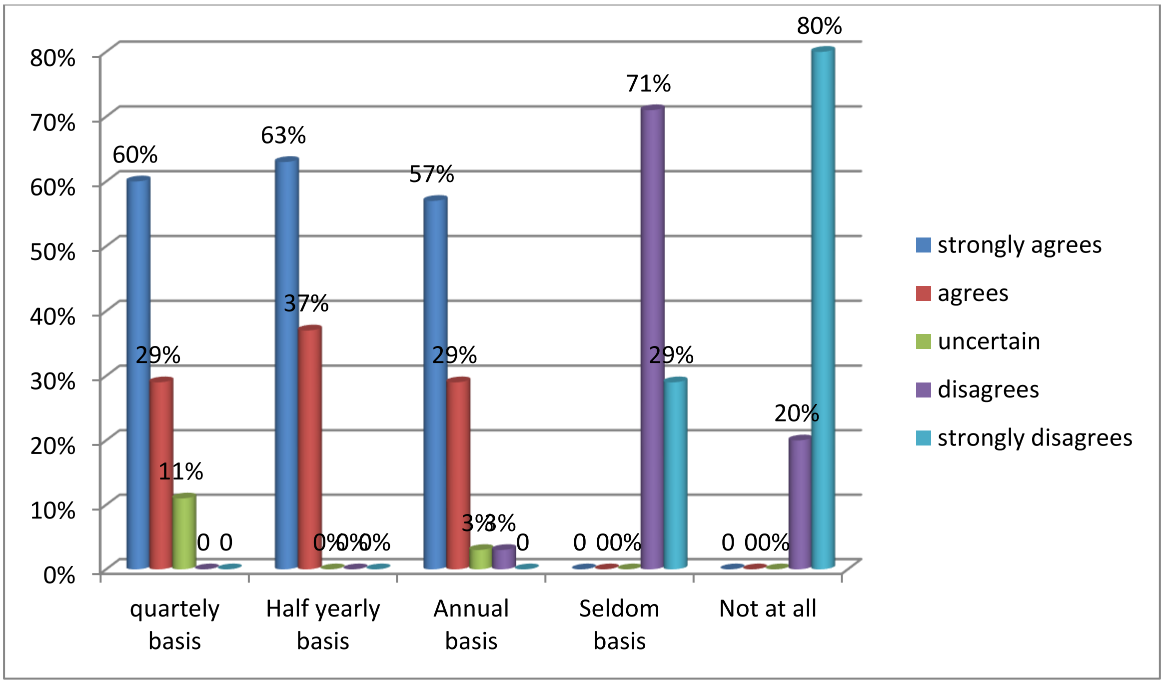
Denis (2012) says that authorized and responsible employees should frequently review and monitor the working capital cycle in order to minimize all potential loopholes. This support the above which reveal that indeed HCCLs working capital cycle is monitored by the finance director and the finance manager.

4.18) HCCLs working capital cycle is monitored on

Table 4.18below illustrate periodical review of working capital cycle

	SA	A	U	D	SD	Total
Quarterly basis	21	10	4	0	0	35
% outcome	60%	29%	11%	0	0	100%
Half yearly basis	22	13	0	0	0	35
% outcome	63%	31%	3%	3%	0	100%
Annual basis	20	10	3	2	0	35
% outcome	57%	29%	9%	6%	0	100%
Seldom basis	0	0	0	25	10	35
% outcome	0	0	0	71%	29%	100%
Not at all	0	0	0	7	28	35
% outcome	0	0	0	20%	80%	100%

Bar graph 4.18below presents periodical review of working capital cycle



The fig 4.18 illustrates how often management review working capital cycle i.e. on quarterly, half yearly, annual, seldom or are not even basis.

(i) Quarterly basis

Fig 4.18 shows that 21/35 (60%) strongly agreed, 10/35 (29%) agreed while 4/35 (11%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that controls are reviewed on a quarterly basis. The above shows that 31/35(89%) agreed and 4/35(11%) disagreed. It can be concluded that reviews are conducted on quarterly basis

(ii) Half yearly basis

Fig 4.18 shows that 22/35 (63%) strongly agreed, 13/35 (37%) agreed while 0/35 (0%) is uncertain, 0/35 (0%) disagreed and 0/35 (0%) strongly disagreed that controls are reviewed on half yearly basis. The information above shows that 35/35 (100%) agreed. It can be concluded that the working capital cycle is reviewed on a half yearly basis at HCCL

(iii) Annual basis

Fig 4.18 illustrates that 20/35 (57%) strongly agreed, 10/35(29%) agreed while 3/35(9%) is uncertain, 2/35 (6%) disagreed and 0/35 (0%) strongly disagreed that the working capital cycle is reviewed on annual basis. The above shows that 33/35 (94%) agreed while 2/35 (6%) disagreed. It can be concluded that, HCCLs working capital cycle is reviewed on annual basis

(iv) Seldom basis

on table 4.18 shows that 0/35 (0%) strongly agreed, 0/35 (0%) agreed while 0/35 (0%) is uncertain, 25/35 (71%) disagreed and 10/35 (0%) strongly disagreed that working capital cycle is seldomly reviewed. The above information shows that 35/35 (100%) disagreed. The finding above can be concluded as, HCCLs working capital cycle is not seldomly reviewed.

(v) Not at all

Fig 4.18 shows that 0/35 (0%) strongly agreed, 0/35 (0%) agree while 0/35 (0%) is uncertain, 7/35 (20%) disagreed and 28/35 (80%) strongly disagreed that HCCL review its working capital cycle at “not at all” basis. The above information shows that 35/35 (100%) disagrees It can be concluded that HCCL reviews its working capital cycle.

Evans (2012) The working capital cycle should be frequently monitored thereby avoiding a longer working capital cycle. This support research above which show that HCCLs working capital cycle is monitored on a quarterly basis, half yearly and annually.

4.19) Does HCCL have a shorter working capital cycle?

Table 4.19 illustrates whether HCCL has a shorter working capital cycle

	SA	A	U	D	SD	Total
Respondents	0	0	0	25	10	35
% outcome	0%	0%	0%	71%	29%	100%

Table 4.19 shows that 0/35(0%) strongly agreed, 0/35(0%) agreed while 0/35(0%) is uncertain, 25/35 (71%) disagreed and 10/35(29%) strongly disagreed that HCCL has a shorter working capital cycle. above shows that 0/35 (0%) agreed while 35/35 (100%) disagreed. Harvey (2010) says that a firm should have a shorter working capital cycle, however show that HCCL has a longer working capital cycle.

4.20) Will effective debtor's management help improve HCCLs working capital cycle?

Table 4.20 illustrates whether effective debtor's management will help improve HCCLs working capital cycle

	SA	A	U	D	SD	Total
Respondents	12	23	0	0	0	35
% outcome	34%	66%	0%	0%	0%	100%

Fig 4.20 shows that 12/35(0%) strongly agreed, 23/35(0%) agreed while 0/35(0%) is uncertain, 0/35 (0%) disagreed and 0/35(0%) strongly disagreed that effective debtor's management will help improve HCCLs working capital cycle. above shows that 35/35 (100%) agreed while 0/35 (0%) disagreed. Hansa (2009) suggests that effective debtors management can help improve the working capital cycle of HCCL. This supports research which show that 100% agreed that effective debtor's management will help improve HCCLs working capital cycle. It can be concluded that effective debtor's management will help improve HCCLs working capital cycle.

4.21. (a) Interview response rate

Interview findings were collected on face-to-face basis. In order to gather all the relevant and valid findings, the researcher had to schedule meetings with management after working hours. Below is an analysis of the respondents' rate outcome.

Table 4.21 illustrates responses from arranged interviews

Response unit	Targeted interviews	Conducted interviews
Respondents	6	5
% outcome	100%	83%

4.21(b)Interview analysis

Q1 How has the company's performance for the past 3 years?

All of the interviewees said that HCCL has not been performing well of late highlighting that the country's biggest coal producer has been facing a lot of challenges of late which includes lack of adequate funds as well as the emerging of competitors. They went on to say that over the past five years new mines such as Makomo Resources, Chilota, WK Blating and Clider have come on board and they have taken chunks of HCCL's market. They also highlighted that the government has also awarded about 20 companies special grants to explore and extract coal as well as coal bed methane, a development that would further impact negatively on the company's market .Respondents from questionnaires also showed that HCCL is not performing well since all the respondents disagreed that HCCL is performing well financially.

Q2Will external financing help resurrect HCCL from a distressed financial position?

All the respondents agreed that external financing will go a long way in improving the financial position of HCCL. The respondents said that HCCLs production levels were decreasing due to the fact that HCCL is using old equipment which needs to be constantly repaired hence reducing production levels since production will be low when these machines are being repaired. They were of the opinion that if HCCL is to get adequate funds through loans then they would be able to replace the obsolete machinery. Respondents from questionnaire 4.5 shared the same view with the interviewees since 86% strongly agreed that external financing will help resurrect HCC from a distressed financial position. Miranda (2009) said that external funding helps improve a firms financial position in that it allows the firm to use internal financial resources for other purposes for instance a firm can set aside its internal financial resources for cash payments to suppliers which can help improve the company's credit rating.

Q3 Is HCCL succeeding to access external loans?

All the respondents said that HCCL has not been managing to access loans of late. They said that this is because lenders are no longer willing to lend money to HCCL since it has unfavorable cash flows currently.97% of the respondents from questionnaire 4.8 disagreed that HCCL is succeeding to access external loans. Hellwig said that it is difficult for firms in a distressed financial position to access external loans.

Q4 What are the major cost drivers at HCCL?

The respondents said that one of the major cost drivers at HCCL is repairs and maintenance. They said that since HCCLs machinery is now old it needs to be repaired now and be taken for maintenance frequently so as to sustain the various operations that have to be performed at the mine. Salaries was identified as another major cost driver by the respondents as they said that HCCL is a big company and hence has a lot of employees on their payroll. Finance costs were identified as another major cost driver since the company is not paying back borrowed funds the borrowing costs keep increasing hence increasing finance costs. Respondents from questionnaires 4.15 also identified the major cost drivers at HCCL as being salaries, repairs and maintenance, fuel, oil and lubricants as well as finance costs. Dunne (2009) supports the above results by identifying the major cost drivers in mining companies as being salaries, repairs and maintenance, fuel, oil and lubricants as well as finance costs

Q5 Is HCCL complying with due borrowing costs?

The respondents disagreed that HCCL is complying with due borrowing costs. They said that the company has not been making adequate profits as shown by the financial statements presented in 4.20. This has affected the company's borrowing ability since most lenders are now reluctant to lend money to HCCL .All respondents interviewed through questionnaires 4.10 disagreed that HCCL is complying with borrowing costs. Weber (2011) said that most companies in financial distress find it difficult to obtain loans because of their inability to pay due borrowing costs.

4.20)Secondary data

Table 4.20

Extract of HCCLs financial statements

Year	2010	2011	2012	2013
Revenue	$US98.9m	$US107.9m	$US104.3 m	$US71.5 m
Profit/loss	$US63m	$US43.8m	$US31.3m	$US(30.9m)
Borrowings	$35.3m	$30.5m	$19.4m	$10.5m

Source: HCCLs financial statements

4.21) Summary

This chapter analyzed, presented, evaluated and interpreted collected from interviews and questionnaires in tabular and graphical form. The following chapter draws its conclusions, summary and recommendations from evaluated from this chapter.

CHAPTER 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0) Introduction

This chapter comprises of the introduction to the study, chapter summaries, major findings, conclusions, recommendations, areas of further study and lastly the summary. Collected findings from chapter four forms basis for closing remarks pertaining to research questions and research objectives with regards to funding policy in times of low liquidity. The chapter concludes challenging other potential researchers for further research on suggested areas.

5.1) Chapter summaries

Chapter One covered the introduction to the study, study background, problem statement, main research question, sub-research questions, research objectives, significance of the study, delimitations and limitations of the research study, definitions and abbreviations and summary. Reflecting the liquidity and capital challenges that HCCL is facing, its growth is scaling down. There is limited capital to recapitalize HCCL which requires large amount of capital, because of the liquidity problem the company is experiencing low capacity utilization levels, low productivity levels and this has taken away the competitiveness of HCCL. This therefore prompted the researcher to establish the going concern of HCCL. The researcher aimed to explore the various ways of helping HCCL come out of the distressed financial position.

Chapter Two considered contributions by scholars. It analyzed various sources of funding HCCL can adopt describing nature and characteristics including benefits and risks related. Ferraro and Melissa (2012) express a concern over the sharp increase 2013 World borrowing statistics and concluded that, 68% external debt will not be repaid in full. Harvey (2010:23) argued that a company should not over rely on external funding. The researcher obtained supporting contributions from journals, textbooks, internet and other specified publications.

Chapter Three comprised of the descriptive research design and methods of collecting data i.e. questionnaire and interviews. The researcher used both qualitative and quantitative data in order to find data about the financial position of HCCL .The researcher randomly selected a sample size of forty employees for questionnaires which included senior and junior managers as well as five employees for interviews.

Chapter Four presented research findings on graphs, charts and tables while analyzing data using statistical computations i.e. mode followed by interpreting the conclusion basing on highest frequency attained. Questionnaire and interviews gained 88% and 83% response rate respectively.

5.2) Major findings

To determine how external financing can help resurrect HCCL from a distressed financial position

The overall analysis of questionnaires shows that 100% of the respondents as revealed in table 4.5 in Chapter Four agreed that external financing can help resurrect HCCL from a distressed financial position. This was also revealed in question 2 of the interview where all respondents agreed that external financing will help improve the financial situation of HCCL. All respondents from questionnaires revealed in table 4.4 that HCCL is not performing well financially. This was also supported by respondents in question 1 of the interview who said that HCCL has not been performing well of late. It was also revealed in table 4.6 Chapter Four that external funding is sourced by the finance director, finance manager as well as the board of directors. The research also revealed that HCCLs funding policy is formulated, implemented and reviewed by the finance director, finance manager as well as the board of directors. The study concludes that external financing can help resurrect HCCL from a distressed financial position.

To establish the going concern of HCCL

The questionnaire results at hand as in Chapter Four table 4.11 show that 100% of the respondents in questionnaires disagreed that HCCL is a going concern. Table 4.12 in Chapter Four shows that 37% strongly agreed whilst 63% agreed that effective cash management has assisted the company meet the day to day expenses of the business and avoid the risk of insolvency. Respondents from questionnaires as in table 4.13 in Chapter Four cited the following factors as being the attributes of risk insolvency in HCCL ; poor cash management, poor debtors management and huge capital expenditure.

To find out the reasons why HCCL cannot access external loans

97% as shown in fig 4.8 in Chapter Four disagreed that HCCL is succeeding to access external loans . All respondents from interviews question no 3 also disagreed that HCCL is succeeding to access external loans. Table 4.9 revealed that HCCL is using short term debt and long term debt as sources of funds. Table 4.10 shows that100% disagreed that HCCL is complying with due borrowing costs. All respondents from interviews question no 5 disagreed that HCCL is complying with due borrowing costs.

To identify the major cost drivers of HCCL

Table 4.15 in chapter 4 revealed that the major cost drivers in HCCL are salaries, repairs and maintenance, fuel oil and lubricants as well as finance costs. Table 4.16 showed that HCCLs machinery is taken for repair on a quarter basis, half yearly basis and annual. Its machinery is also taken for maintenance on a quarterly basis, half yearly basis and annual as shown in table 4.17 in Chapter Four.

To determine the working cycle for HCCL

HCCLs working capital cycle is maintained by the finance director and finance manager as shown in table 4.17 in Chapter Four. It is maintained on a quarterly basis, half yearly and annual as revealed in table 4.18 of Chapter Four. It was also revealed that HCCL has a longer working capital cycle in table 4.19 of Chapter Four.

5.3) Conclusion

The research managed to establish factors causing HCCL to fail to access external funds . The research endeavours succeeded since findings confirmed borrowing inefficiency and ineffectiveness in paying borrowing costs.

5.4) Recommendations

Open new credit lines

HCCL should open new credit lines with financial institutions which offer more favorable interest rates and payment conditions. Availed funds should be pre-planned and pre-budgeted for in order to avoid all potential fraudulent activities. Beranek (2010) recommended that, management should implement the aggressive funding policy that is borrowing short term debts specifically for financing working capital and the conservative funding policy that is acquiring long term debts specifically for financing non-current assets and seasonal capital demands.

Segregation of duties

Management should segregate duties that is delegating responsibility and accountability which result in standardizing controls over formulation, implementation and reviewing existing funding policies. Kielmas (2012) recommended that, duties are supposed to be authorized and executed by different personnel. This reduces all potential window dressing ideas, potential theft and fraudulent activities in executing duties since a preview of all tasks is guaranteed. HCCL should not centralize funding policy decision making process in the hands of minority i.e. board of directors only. In order to enhance optimum returns both on financial and operational performance, all appropriate functional departments are supposed to be integrated.

Implement vertical upward communication lines

Management should implement vertical upward communication lines which opens room for problems faced on the ground by employees. Pisirai (2010) recommended management to prioritize team communication channels which encompasses all member participation. Also workplace training should be introduced in the finance department so as to fully equip all existing personnel with funding concepts.

Qualified personnel should be responsible for implementing funding policies

Funding policy should be implemented and maintained by qualified personnel who minimize and reduce potential risk. Funding trends should be frequently monitored thereby avoiding falling into unplanned funding penalties and unfavorable gearing ratio. Authorized and responsible employees should frequently review and monitor existing funding policies on monthly basis in order to minimize all potential loopholes. For a successful cashflow management HCCL must have complete control on each aspect of the working capital cycle components for example ensuring effective debtors and cash management.

Shareholders should redress issued share capital

Shareholders should redress issued share capital in order to accommodate and attract cheaper long term foreign direct investments. Directors should recapitalize profits by not declaring dividends to shareholders thereby recapitalizing both distributable and non distributable reserves. If possible the government should assist by on negotiating for foreign direct investments as guarantee on behalf of its private sector and also providing subsidies to sustain private companies' operational demands.

5.5) Areas of further study

The researcher recommends studying the best method of reducing borrowing costs so as to minimize the risk of failing to pay them as well as ways of helping HCCL to be a going concern entity.

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APPENDIX 1

Established 2000 Midlands State University

Midlands State University

P Bag 9055

Gweru

19 September 2014

Hwange Colliery Company Limited

1 Coronation Drive

Hwange

To HR Manager

Re:Application seeking permission to carry out a research

I am a 4th year student at the above mentioned institution studying towards the attainment of a Bachelor of Commerce Accounting Honours degree. I hereby seek approval of carrying out a research titled, " An analysis of the funding gap on the performance of mines. A case of Hwange Colliery Company Limited". The research is carried out in partially fulfilment of the degree programme requisites.

All 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

Nonkanyiso Ndlovu

Reg Number R11686M

Established 2000 Midlands State University

Midlands State University

P Bag 9055

Gweru

19 September 2014

Hwange Colliery Company Limited

1 Coronation Drive

Hwange

Dear Respondent

Re: May you kindly fill in the questions in the questionnaire

My name is Nonkanyiso Ndlovu, a student at the above mentioned University. Below is a questionnaire titled, “An analysis of the funding gap on the performance of mines .A case of Hwange Colliery Company Limited” May you please express your views and opinions through ticking or placing “x” in the appropriate box indicated. All your responses are confidential and will only be used for academic purposes.

Your contribution will be greatly appreciated

Yours faithfully

Nonkanyiso Ndlovu

Reg Number R11686M

APPENDIX II

QUESTIONNAIRE

Background information

1.) Duration in the organization

0-3yrs ☐ 3-5 yrs ☐ 5-10 yrs ☐ +10 yrs

2.) Current position held by the respondent ………………………………..

3.) Academic qualifications

"A" Level ☐ Diploma ☐ Degree ☐ Masters ☐ ☐ Other

Specify if other……………………………………..

4.) HCCL is performing well financially

Strongly agree ☐ Agree ☐ Uncertain ☐ Disagree ☐ strongly disagree ☐

5.) External financing will help resurrect HCCL from a distressed financial position

Strongly agree ☐ Agree ☐ Uncertain ☐ Disagree ☐ strongly disagree ☐

6.)External funding is sourced by

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
i) Finance Director					
ii) Finance Manager					
iii) Financial Accountant					
iv)Board of directors					

7) The funding policy is formulated, implemented and reviewed by

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
i) Finance Director					
ii) Finance Manager					
iii) Financial Accountant					
iii) Board of directors					

8.) HCCL is succeeding to access external loans

Strongly agree ☐ Agree ☐ Uncertain ☐ Disagree ☐ strongly disagree ☐

9.) HCCL relies on the following sources of finance

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
i) Short term debt					

ii) Long term debt					
iii) Retained profits					

10.)HCCL should open new credit lines with financial institutions which offer more favourable interests

Strongly agree ☐ Agree ☐ Uncertain ☐ Disagree ☐ strongly disagree ☐

11.) HCCL is complying with due borrowing costs

Strongly agree ☐ Agree ☐ Uncertain ☐ Disagree ☐ Strongly disagree ☐

12.) HCCL is a going concern entity

Strongly agree ☐ Agree ☐ Uncertain ☐ Disagree ☐ strongly disagree ☐

13.) Effective cash management has assisted the company meet the day to day expenses of the business and avoid the risk of insolvency

Strongly agree ☐ Agree ☐ Uncertain ☐ Disagree ☐ strongly disagree ☐

14.) . The company's financial position indicate 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					

15.) The following factors are considered by lenders in increasing company's liabilities

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
i) Repayment policy					
ii) Collateral security					
iii) Market trends					
iv) level of borrowings					

16.) The following are HCCLs major cost drivers

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
i) Salaries					
ii) Repairs and					

Maintenance					
iii) Fuel, oil and lubricants					
iv)Finance costs					

17.) HCCLs machinery repairs are made on

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
i) Monthly basis					
ii) Quarterly basis					
iii)Annual basis					
iv)Seldom basis					
v)Not at all					

18.) HCCLs machinery is taken for maintenance on

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
i) Monthly basis					
ii) Quarterly basis					
iii)Annual basis					
iv)Seldom basis					
v)Not at all					

19.) HCCLs working capital cycle is monitored by

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
i) Finance Director					
ii) Finance Manager					
iii) Creditors controller					

20.) HCCLs working capital cycle is monitored on

	Strongly agree	Agree	Not sure	Disagree	Strongly disagree
i) Quarterly basis					
ii) Half yearly basis					
iii)Annual basis					
iv)Seldom basis					
v)Not at all					

APPENDIX III

INTERVIEW GUIDE

1. How has been the company's performance for the past three years?

2.What can be done to improve the financial performance of HCCL?

3.Who formulates HCCLs funding policy?

4. Is HCCL succeeding in accessing external loans?

5.Which sources of finance does HCCL rely on?