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FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

THE IMPACT OF DEBT FINANCE ON THE FINANCIAL PERFORMANCE OF A SMALL TO MEDIUM ENTERPRISE: A CASE OF WORKMAN ZIMBABWE (PRIVATE) LIMITED

By

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This dissertation is submitted in partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree at Midlands State University.

Gweru: Zimbabwe: 2018

APPROVAL FORM

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Dedication

I dedicate this dissertation specially to my mother, Ms M. Hwiza, my brothers Elton, Trevor and Gerald, my friend Martha Chafachaipa and the rest of my family and friends for being supportive to me throughout my study.

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Abstract

The main purpose of this research was to determine the impact of debt finance on a small to medium entity, a case of Workman Zimbabwe (Private) Limited. The management reports of the company showed a recurring decline in profits, increase in interest costs as well as high gearing ratios from 2015 to 2017. This had resulted in greater variances between budgeted amounts and actual amounts raising a cause for concern thereby necessitating the need for this research. Literature from various researchers was outlined to obtain different views on theories on debt finance, impact of debt on financial performance, other possible causes of poor financial performance and measures to improve financial performance. Primary data was collected through interviews and questionnaires. Secondary data was obtained from company management accounts. Data presentation and analysis was done on the objectives of the study and regression analysis was used to analyse data. The researcher concluded that debt has a significant influence on the financial performance of Workman Zimbabwe with short term debt having a significant negative effect whilst long term debt has a negative effect on financial performance.

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CHAPTER 1

INTRODUCTION

1.0 Introduction

In business financing there is equity and debt financing. This research aims to outline the effects of debt financing to a company's performance. As indicated by the Minister of Finance, Mr Patrick Chinamasa (2016), there should be a balance between debt and equity. When investments are mainly debt it gives cause for concern in the future. This chapter entails an overview of the study focusing on background of the study, statement of the problem, research objectives, sub-research questions, limitations and delimitations of the study. Also outlined in this chapter are definitions of key terms and the chapter concludes by giving a summary.

1.1 Background of the study

Debt finance is a common method of financing business operations in Zimbabwe especially for small to medium enterprises. It proves more beneficial for investors to offer debt finance that is payable in future as it is more secure and guaranteed. This has resulted in many companies having a high financial leverage which becomes difficult to manage. According to Abel (2017) debt finance often has strict conditions in addition to the interest and principal amounts which can increase the company's future cost of borrowing money adding risk to the company. This has led to many business closures as stated by Chitemba (2013) who reported from the Master of High Court indicating that there were more than 1000 company closures from 2011 to 2013 due to inability to clear debts.

Workman Zimbabwe (Private) Limited is a company incorporated in 1894. It was initially known as Five avenue till 2012 when it was acquired as a going concern and changed its trading name (Workman, 2014). It is a hardware retail company specialising in farming equipment, plumbing materials, electricals, building materials, paints and other various products. The company exists in a highly competitive industry with few barriers to entry. This forces management to always device strategies to ensure a greater competitive advantage. This includes diversification, flexibility and improved customer service. To achieve survival and growth, more capital is required.

The company has a relatively small capital base with total shareholders' equity amounting to $22,677 in 2016 and $20,885 in 2017 (Management accounts 2016, 2017) making it difficult to fully invest in daily operations to meet clients' orders in time. The shareholders have not

been able to further their investment in the company and the company has been getting decreasing profits since 2014 by up to 20%. At times the company incurred losses on a monthly basis, for example in July 2016 amounting to $8,667 and September 2016 amounting to $2,584 such that there were no profits invested back in the business (Management report 2016). Liquidity crisis in the nation has resulted in the company experiencing negative acid test and current ratios at 0.69 and 0.8 respectively. This has prompted the management to seek debt capital from various institutions from $5,000 and above with some bank loans amounting to $75,000 used to finance large contracts from the company's major clients such as Zimplats and Unki Mines. These usually include materials that need to be imported raising the need for foreign currency thereby the company has to seek additional finance in the relevant currency usually from US$6,000 to US$20,000 to be able to complete the orders.

The use of debt finance from 2015 to 2017 has been beneficial in meeting the clients' orders but has also resulted in the company incurring high interest expenses from various debts acquired. Table 1.1 below shows how revenue, interest charges and profits have been influenced by the debts acquired.

Table 1.1 – Illustration of company performance

YEAR	DETAILS	BUDGETED AMOUNT$	ACTUAL AMOUNT $	VARIANCE $	VARIANCE %
2015	Revenue	880 000	887 500	+7 500	+0.85
	Interest	30 000	40 500	+10 500	+35
	Profits	26 800	21700	-5 100	-19
2016	Revenue	950 000	904 600	-45 400	-4.78
	Interest	35 000	55 763	+20763	+59
	Profits	28 000	18 127	-9873	-35.26
2017	Revenue	1 000 000	1 064 369	+64 369	+6.4
	Interest	50 500	78 288	+27 788	+55
	Profits	28 500	18 380	-10 120	-35.5

Source- Income statements (2015, 2016 and 2017)

The Table 1.1 above shows the differences in revenue, interest and profits from the budgeted amounts to the actual amounts. The use of debt finance has been beneficial as the company realised increases in revenue in 2015and 2017 by 0.85% and 6.4% respectively. However the increase in revenue is lower than the increase in interest costs as there was a 39%, 59% and 55% increase in interest charges over 2015, 2016 and 2017 respectively indicating further debt finance acquired. A lucrative position will be when interest charges decline over years as the debt will be repaid instead of more additions. The gearing ratios for 2015, 2016 and 2017were ranging between 76-78% (Financial Highlights 2016, 2017) which is a highly risky situation as it means the company is mainly financed by debt over equity. In any case of dissolution the equity shareholders would be at a disadvantage. It also indicates a bad credit position for the company which can scare away potential investment and other potential creditors. This raised an alarm for management which resulted in a shareholders and directors meeting held on 1 January 2018 to discuss the debt situation in the entity prompting management to take corrective action such that improvements can be realised by the end of 2018 (Board minutes, 2018).

1.2 Statement of the problem

Workman Zimbabwe is facing financial problems due to high debts resulting in higher costs and lower profits. The debt is acquired to finance large orders for the company to gain more profits but from the financial statements, there has been decreases in profits and a slight increase from 2016 to 2017. The increase is very low compared to the increase in debt and interests paid. This indicates the inability of additional debt to positively influence the financial performance of the company.

1.3 Main research question

What is the impact of debt finance on the financial performance of a small to medium enterprise in the hardware retail sector?

1.3.1 Sub research questions

- What are the theories on debt finance and their impact on performance?
- What are the effects of high debt levels on financial position indicators?
- What other factors may contribute to a negative financial performance?
- What other measures can be implemented other than debt finance to improve financial performance?

1.4 Main research objective

To determine the effect of debt financing in a small to medium business' financial performance.

1.4.1 Research objectives

- To outline the theories on debt finance and their impact on business performance.
- To outline the impact of debt finance on performance indicators.
- To investigate on other factors that result in a negative financial performance
- To outline other measures to improve productivity besides debt financing.

1.5 Significance of the study

This study aims to be useful to the researcher, Midlands State University and Workman Zimbabwe (Private) Limited.

1.5.1To the researcher

This study is in partial fulfilment of the Bachelor of Accounting Honours Degree. It is also a way to show the researcher's understanding of the area under study, show research skills and knowledge gained from the previous years studying towards the degree.

1.5.2To Midlands State University

The university may utilize this research, if the findings are acceptable, for other students in related study areas.

1.5.3To Workman Zimbabwe Private Limited

Findings on this research may assist the company on how to further investment in their businesses considering the impact of debt financing to achieve a desirable level of investment and ways to solve financial performance issues.

1.6 Assumption

Information from respondents gathered through the various ways of sourcing information will give a fair view of the business operations at Workman Zimbabwe (Private) Limited.

1.7 Delimitations

- Research was on Workman Zimbabwe (Pvt) Ltd which is geographically located in Harare.
- The time limit under study was restricted to the years 2015 to 2017

- The study will focus on the impact of debt finance on the financial performance of Workman Zimbabwe (Pvt) Ltd.

1.8 Limitations

- Limited time to gather findings enough to make informed analysis and recommendations. The researcher will make use of time in between lectures to collect, present and analyse the data.
- Limited access to confidential information such as company documents. There is therefore need to fully explain the purposes of the study to the management of Workman Zimbabwe and observe a professional behaviour to maintain the confidentiality of the company.

1.9 Definition of key terms

Debt financing- this is when a company borrows money repayable at a future date with interest. It is the external financing for companies seeking additional funds (Nyamita et al, 2014)

Small to medium enterprises- the definition is subjective however size, number of employees and capital invested determine whether an entity is a micro, small or medium enterprise. They are usually companies with less than 200 employees (Berisha and Pula, 2015)

Financial performance- According to Business Dictionary it is the measuring of a firm's operations in monetary terms usually indicated by return on investments, return on assets and value added.

Borrowing costs- these are costs incurred in conjunction with borrowing funds such as interest expense (Mckenzie et al, 2015)

1.10 Abbreviations and acronyms

SME- Small to medium enterprises

1.11 Summary

This introductory chapter outlines what the research will be about and the statement of the problem indicating the situation prompting the need for the research. The objectives of the study outlined in this chapter will give rise to the next chapter giving a more detailed view of the objectives.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

Literature review is an objective, critical summary of published research information useful in a research on a topic (Galvan and Galvan, 2017). It creates familiarity between the research and current trends and can provide information on previously overlooked or understudied area. This chapter will give a detailed evaluation of the objectives of the study using literature from previous researchers to ensure gap analysis.

Theoretical review

2.1 Theories on debt finance

Modigliani and Miller (1958) created a theory of investment and held that capital structure does not impact a firm's value instead it might increase the performance under perfect market conditions (Jibran et al, 2012). This brought about various theories that support their views such as trade off theory and pecking order theory to outline a more realistic approach on optimum debt levels.

2.1.1 Pecking order theory

This theory was developed by Myers and Majiluf in 1984 suggesting that more profitable firms are less levered than less profitable firms (Jibran et al, 2012). Profitable companies have retained earnings to invest back in the business therefore less profitable firms have a greater need of debt financing to meet their financial needs. Machielsen (2013) supports the theory stating that external debt financing is as a result of internal financing deficit. Abosede (2012) states that firms according to the pecking order theory rely on internal than external funds and if they source externally they prefer debt over equity to avoid wealth transfer to outsiders and negative effects of adverse selecti8qzssxx on thereby avoiding equity issues. This theory aims to promote investor and manager relationship by preferring debt over equity as a method of further financing the operations of the business. The theory encourages debt financing over attracting equity investments from outsiders as it acts as a signal of confidence that management has in the investment (Adair, 2014). It indicates that the investment will yield benefits to cover borrowing costs and additionally yield profits for the business.

On the other hand other researchers argue against the practicality of the theory in modern day businesses. Abosede (2012) suggests that debt financing may also signal failure in managing company finances to an extent where debt financing will be the last resort for the entity. This may be a bad signal to investors leading to lack of further investments by existing shareholders. Abeywardhana (2017) states that there is no significant difference in whether small, medium or large companies follow the pecking order theory. Findings indicated that the small firms should not necessarily follow pecking order theory to realise more profits and growth. Bhama et al (2017) argues against pecking order theory in that industries use more of trade off theory to justify the use of more debt however this depends on the type of industry. Singh and Kumar (2012) also indicate that more companies view the pecking order theory as less practical.

2.1.2 Trade off theory

This theory takes into account the tax benefit that arises from acquiring more debt thereby justifying the utilisation of more debt finance to improve business performance. Makanga (2013) supports the theory since interests are deducible from taxable profits. SMEs already enjoy low tax rates from the government therefore this outlines further tax benefits. Persson and Ridderstrom (2014) support the theory as the cost of capital for a levered company in perfect market conditions will be equal to the cost of capital of unlevered company. This is due to the set off between tax benefit and borrowing costs.

However Modigliani and Miller's framework ignores the fact that bankruptcy risk may be high as high leverage means fixed payments claims that result in increasing borrowing costs. Bankruptcy costs are expenses borne by an entity when the expected probability that the firm will fail on repaying is nil (Awan and Amin, 2014). Bankruptcy costs include liquidation costs which is loss of value as a result of disposing the net assets of the firm and distress costs whereby stakeholders believe that the company will discontinue (Mosafa and Boregowda, 2014). Makanga (2013) also suggests that there is a cost of financing with debt which are financial distress including bankruptcy costs of debt and non- bankruptcy costs such as staff leaving and suppliers demanding high payment terms. Makanga (2013) further outlines that the theory is against pecking order theory as it suggests that profitable firms should borrow more to reduce tax.

2.2 Effects of debt financing on financial performance indicators

Financial performance is the degree to which financial objectives of a business have been or are being achieved (ACCA, 2017). This is a measure of effectiveness of company policies in monetary terms. Financial performance is indicated by the financial statements and further analysis of the financial statement information. These include profitability, liquidity and market share.

2.2.1 Profitability

Pradhan (2017) states that profitability is measured in various ways such as return on assets, return on equity and net interest margin. Researchers have outlined the positive relationship between debt and profitability. Pradhan (2017) goes on to point out that from his findings it indicated that short term debts have a positive impact on profitability. As firms seek short term debts they are able to meet their operational needs to realise profits enabling them to pay back the loans. Habib et al (2016) found a positive relationship between debt and profitability stating that debt enables a company to do what it could not. It can invest in other projects which will in turn result in realising profits. Negasa (2016) also supported this view stating that the study showed an effective use of debt by private companies as their main aim is to increase shareholders' wealth therefore it resulted in a positive relationship between debt and profitability.

Other researchers gave neutral views on the impact caused by debt finance. Kabewar (2013) indicated that debt has no influence on profitability either directly or indirectly and regardless of the firm's size. Pradhan (2017) indicated that his study showed that a negative relationship exists between long term debt and profitability. The pecking order theory also suggests a negative relationship exists between the two variables due to the fact that high profitable firms acquire less debt yet they continue earning more profits (Kabewar, 2013). Anandasayan (2013) and Habib et al (2016) also found a negative relationship due to the borrowing costs that may become unbearable if debt is not managed well. These studies were based on various manufacturing industries. This research aims to determine impact of debt on profitability of a retail firm.

2.2.2 Liquidity

Liquidity is the ability of an organisation to realise value in money through the conversion of assets into cash during the normal course of business (Elliot, 2014). There are various

indicators of business liquidity including acid test or quick ratio, absolute liquidity ratio and working capital ratio. If an entity fails to pay its short term debts it will not be able to meet the requirements for long term debts which may lead to a negative relationship with investors. Profitable firms may become bankrupt if it fails to meet its debt obligations. Gharaibeh (2015) conducted a study and found a positive relationship between debt and liquidity stating that a company incurring liquidity problems will seek external financing to solve the problem. The debt finance acquired will cover the funding gap as required. Salman and Munir (2012) also found a positive relationship. Mansnoon and Saeed (2014) found a positive relationship as debt acquired will help increase the cash and cash equivalents available in an entity to meet its daily obligations.

There are various researchers that found a negative relationship between debt and liquidity. A company may seek debt finance to improve liquidity but if there is mismanagement of finances acquired there may result in liquidity problems. Mutenheri and Munangagwa (2015) found a negative relationship between debt and liquidity stating that repayment of debt can lower the liquidity position of a company over the repayment period.

2.2.3 Revenue

These are amounts an entity receives from sales made over a period of time influenced by the market share the company holds. This is the ability of a firm to successfully compete in a given business environment (Selcuk, 2016). It is the ability of an entity to influence its revenue. Debt financing enables an entity to meet its clients' demands resulting in increase in revenue. This is supported by Fosu (2013) who conducted a study on various companies and came to the conclusion that higher debt levels enhances market competitiveness as production is enhanced enabling the company to charge competitive prices. Khalatbari et al (2013) also found out that high debt ratios have significant positive influence on competitiveness. Finance from debt fosters company growth and ability to handle more sales resulting in an increase in the company's market share. Nickel (2013) also found a positive relationship as firms in competitive leverage significantly benefited from the additional finance to invest in new methods, equipment and promotion thereby creating a competitive advantage.

On the other hand, it was concluded in other previous studies that firms with high leverage suffer a significant competitive disadvantage. Chavalier (2015) provides information that if an entity increases its financial leverage, there will also be an increase in the market value of competitors creating opportunities for new entry and expansion of competitors.

2.2.4 Operating costs

These are the costs that an entity incurs over a period of time and deducted from revenue to realise either profits or losses. Some researchers state that debt financing, has an insignificant influence on total costs of the organisation. Akthar (2016) states that interest paid on debt finance is deductible therefore the entity pays less tax. This means the tax advantage offsets the interest expense. This is in line with trade off theory which outlines that there is a trade-off between tax deduction and interest expense (Makanga, 2013).

On the other hand debt costs may result in increase in the entity's total costs. Dube (2013) states that due to high interest rates prevailing there will be high interest expenses to meet the requirements of debt financing especially on short term debt financing which usually has higher interest rates than long term debt financing.

2.3 Other causes of negative financial performance

A negative financial performance exists when the entity incurs declining revenues, profits, increasing costs and lower liquidity position signalled by negative return on assets and return on investment (Petty et al, 2017). There are various causes of negative financial performance such as lacking management skills, harsh economic conditions and stiff competition levels.

2.3.1 Lacking management skills

The management of a company should possess skills useful in overseeing the day to day operations of the business. These skills involve decision making, planning, delegation, communication and time management. Fatoki (2014) outlines that management skills are a critical success factor for businesses especially small to medium enterprises as it proves the ability to meet new challenges as the business evolves. Poor management can be in the form of poor corporate governance, ineffective budgeting and poor internal controls.

- Ineffective budgeting

Kimunguyi and Memba (2015) define budgets as an economic tool to facilitate and achieve objectives of an organisation over a specified period of time. If budgets are not explicitly explained to all personnel there will be loss of direction in the entity depriving the entity to achieve its objectives. Onduso (2013) conducted a study and established that budgets strongly

influence financial performance. He analysed the relationship between budgets and return on assets and found out that ineffective budgeting resulted in lower financial performance. If budgets are not adjusted on a timely basis to meet changes in business environment and integrated with all business operations it will be irrelevant and might lead to a negative financial performance.

However, according to Swain and Reed (2015), the problem might not be formulating the company's budget but rather the implementation that may be poor. Management may be effective in formulating a budget but if no proper monitoring is done, it can result in poor financial performance.

- Poor internal controls

Internal controls are the processes designed by those charged with governance, management and other personnel to ensure achievement of the company's objectives to result in reliable financial statements and effective operations in line with relevant laws and regulations (ACCA, 2017). Njeri (2013) states that financial performance is measured by the efficient and effective implementation of the internal controls thus they are essential in business operations. Uncommunicated internal controls and lack of internal audit function to establish internal controls results in unorganised operations. Nyakundi (2014) supports this view stating that lack of internal audit function or a weak internal audit function may result in poor internal controls which can be easily evaded. Irregular audits and absence of regular reports are examples of poor internal controls that may result in financial statement frauds leading to lower financial performance (Nyakundi 2014). According to Rennox (2017) poor internal controls may result in asset loss, unreliable financial statements and non-compliance with laws and regulations. Odhiambo et al (2014) states that poor internal controls alone are not to blame but with outdated technology and poor management structure contribute to poor financial performance.

2.3.2 Poor corporate governance

OECD (2015) states that good corporate governance is sound legal, regulatory and institutional framework that stakeholders can rely on when establishing relations with the entity. It is the system by which companies are directed and controlled. Board of directors are responsible for the governing of the companies and shareholders appoint the directors and auditors to ensure implementation of good corporate governance. Musoko (2013) studied companies in Zimbabwe and established that bad corporate governance hurts companies and the economy as a whole as directors fail to adhere to acceptable principles. This is because poor governance

translates into poor performance by lower level personnel as there will not be guided operations. Aldayeen (2017) also established a significant negative influence of poor governance on financial performance stating that poor governance demotivates employees and creates loopholes to bad business practices. Zaharia and Zaharia (2012) state that weak corporate governance results in higher input costs, lower equity return, lower value and therefore lower performance.

On the other hand, Al-Sahafi (2015) established that effect of corporate governance on financial performance depends on the governance characteristics being assessed. Separation of positions of Chief Executive Officer and the Chairman indicated no relationship with return on assets and return on equity. Shahwan (2015) argues that corporate governance has insignificant influence on financial performance therefore other company characteristics should be analysed to determine causes of a decline in financial performance. Darweesh (2015) conducted a study and found out that board committee and ownership structure have insignificant relationship with profitability thereby indicating little effect on financial performance of a company.

2.3.3 Level of competition

High competition is whereby there are large number of firms and very low barriers to entry with companies facing relentless competition. Yahaya et al (2015) found a negative relationship between competition and financial performance arguing that competition results in increase in costs to improve service delivery and gain a competitive advantage in an industry therefore leading to a decline in financial performance. Phiri (2017) also found a negative relationship between competition and financial performance of SMEs as many lack adequate financial support to invest in their business to fight competition. The existence of large corporations with greater brand loyalty results in less market share for the SMEs leading to lower revenues and a decrease in financial performance.

However, Mutsago (2017) argued that competition has a positive relationship with financial performance as long as effective competitive strategies are in place. Stein (2013) also supports this view adding that the entry of new firms forces innovation in existing entities thereby improving market share resulting in more revenues.

2.3.4 Economic conditions

Notta and Vlachvei (2014) define harsh economic conditions as a situation of economic recession which can involve high unemployment rates resulting in low disposable incomes and declining market shares, increasing inflation rates and interest rates. This leads to decline in profits for most companies thereby leading to a decline in financial performance. Mhlanga (2016) indicated that in Zimbabwe, fall in economic conditions has been prevailing resulting in weak demand for goods and services, high unemployment, tight liquidity conditions and an overregulated business environment. Gray (2016) states that adverse economic conditions result in high interest rates making it costly for companies to acquire finance and increases costs. This often leads to many company closures indicating a significant downfall in company financial performance. Alimi and Ajosin (2014) conducted a study and realised a significant decrease in growth as companies exit in a declining economy.

Other researchers however give different views. Umaru et al (2013) states that inflation can have a positive impact on financial performance through encouraging productivity in the country to take advantage of high prices. Waleed et al (2016) state that banks with high liquidity have lower interest margins thereby reducing profitability. This indicates possible existence of positive impacts of harsh economic conditions on company financial performance

The researches above were mainly of large enterprises and some in the banking sector. This research aims to determine factors that can cause poor financial performance for small to medium enterprises in Zimbabwe.

2.4 Measures to improve financial performance

These are strategies adopted by managements of companies to curb financial performance issues to achieve company objectives (Bonney, 2015). These measures are meant to improve revenues, profitability, liquidity and growth and at the same time decreasing costs and liabilities. Some of these measures include employee motivation, debt factoring, effective budgeting, seeking government assistance and diversification.

2.4.1 Employee motivation

Success and competitiveness of organisations largely depend on professional performance of employees and improving their performance should be a priority (Ratiu and Suciu, 2013).

Employees should feel important in an organisation for them to work effectively for the benefit of the organisation. To ensure this employee motivation should be implemented by management. Ndukwa (2016) defines motivation as a management process implemented to encourage people to work to improve an organisation's performance by providing employees with motives that meet their needs. Various theories have been formulated to ensure employee motivation such as Herzberg's two factor theory, Maslow's hierarchy of needs and Vroom's expectancy theory (Ndukwa, 2016). There are various ways to ensure employee motivation is effective. Sharlyn (2015) outlines these ways as encouraging staff contributions in policy formulation and decision making. Management should ensure that they effectively communicate roles to be fulfilled to employees to avoid duplication of tasks and omission of important tasks which may affect the financial performance of an entity. Achim and Dragolea (2013) also support the view that motivation can improve financial performance through clear planning, profit sharing with employees, selling shares to employees and implementing deadlines to ensure employees are aware of their targets. Richardson (2014) states that employee motivation is essential as it reduces employee turnover thereby ensuring improved skills and in turn improved revenues.

2.4.2 Debt factoring

Afifi and Jumani (2015) define debt factoring as the agreement between a business and a third party such as a factoring company or bank to sell its accounts receivables at a discounted rate for immediate cash inflow in return. This process aims to increase liquidity levels in an entity to improve its financial performance. This process has various benefits which include cash received enabling the company to meet its obligations. Mohan and Ray (2017) also supports the use of debt factoring as it provides SMEs with working capital to finance their daily operations. Transfac Capital (2014) outlines other benefits associated with debt factoring such as that the business enjoys free credit reporting and management from the factoring company thereby the company is saved on time and resources to fulfil that task. Debt factoring from his findings proved to be less costly than bank long term loans, enables the company to avoid bad debts and there is no dilution of ownership and control.

However, Matsen (2013) argues that service fees and discounts are costly to the organisation depriving the entity from gaining all amounts accrued to it by its debtors. It may also prove to be difficult to collect long outstanding debts from state owned enterprise resulting in factoring firms declining some debtors. Hoti (2014) states that over reliance on factoring result in

excessive trading and mismanagement, loss of direct customer relations and if a company has few debtors it may not qualify to have a debt factors especially SMEs. It is also a source of short term financing thereby it does not give a solution that will exist in the long run.

2.4.3 Diversification

Dhir and Dhir (2015) define diversification as modifying existing products or adding new products to the product range in order to increase a company's market share. Companies need to consider resources available, risk involved and conduct proper research before engaging in product diversification. Kuria (2016) states that diversified firms may have higher financial performance than undiversified firms. Geographical diversification can have a positive impact on financial performance as the company would have entered into new markets thereby creating a competitive advantage. Related product diversification normally has a greater positive influence on financial performance as a company extends its existing market. Mwangi (2015) states that a positive relationship exists between diversification and company performance.

On the other hand other researchers found a negative relationship between diversification and financial performance. Ondari et al (2016) states that diversification mainly influences non-financial aspects of an organisation and its effect on financial performance is insignificant. As outlined by Bozi et al (2013), firms are better undiversified than diversified as there are various costs involved in the process that can lower the financial performance of the entity. However varying degrees of diversification have different effects on financial performance.

2.4.4 Government assistance

This is support rendered by the government to local companies with the aim to improve their performance which will result in economic development. Small to medium enterprises sector is a major contributor to the national economy thereby its sector is of great importance to the government.

Wu (2016) states that government assistance comes in various forms such as loans, grants, subsidies and technical support. Additional funding from the government enables companies to meet their financial needs thereby improving performance. Research and development assistance enables the companies to venture into profitable projects and avoid losses. Trong and Batolacci (2017) state that government technical support is essential in business

development as it raises awareness to new methods and equipment to conduct operations efficiently and effectively at lower costs.

However, Zhang et al (2014) states that some government assistance may not be reliable as they can be based on social networks and political connections. This will not be beneficial to company performance as there is a likelihood of distortions in efficient allocation of resources among companies.

2.5 Empirical literature

Various researchers have conducted studies on the impact of debt on performance in different countries and different industries.

2.5.1 Rwanda

Harelimana (2017) conducted a study on the impact of debt financing on the performance of two commercial banks in Rwanda namely Bank of Kigali and IM Bank. Comparative, descriptive and correlative methods of study were used to detect the impact of debt financing on return on assets, liquidity, loan asset ratio and sustainable growth of the banks. A quantitative approach was used in collecting secondary data from the banks' websites. Multiple regression was also implemented to analyse the effects of debt financing on various financial performance indicators.

The findings of the study indicated that Kigali and IM Bank had high debt ratios of 81% and 86% respectively showing a weak financial position as creditors prefer low to moderate ratios. Relationship between debt and return on assets was positive by 63% for Kigali and 54% for IM Bank. Debt had an insignificant impact on Kigali but however had a positive relationship with the liquidity of IM Bank signalling that the additional debt acquired by IM Bank improved its liquidity position. Debt showed an insignificant relationship with loan asset ratio and sustainable growth. Overally, findings from the study indicated that high debt levels had a significant positive impact on the financial performances of the banks.

2.5.2 Kenya

Kirimi et al (2017) conducted a study on the impact of debt finance on financial performance of Savings and Credit cooperative societies in Kenya focusing on Saccos. The multiple linear regression model was used to analyse the primary and secondary data obtained from the

organisation. Financial performance indicators that were considered in the study incuded interest expense, interest coverage ratio, and loan tenure.

The findings from the study indicated that as Saccos acquired more debt finance it eventually incurred an increase in interest rate by 1.45% thereby increasing interest costs. There was also a decline in repayment duration by 4 months. There was a decline in interest coverage ratio up to 3.47 times. This indicated a decrease in the firm's ability to borrow more funds due to existing loans. Less investments of profits prevailed due to earning being utilised to service loans. The overall conclusion was that debt financing negatively affected the financial performance of the company.

2.5.3 Pakistan

Akhtar (2016) conducted a study on the effects of debt financing on the value of a firm with specification to hundred Pakistan companies over six years. Secondary data was used from the Pakistan Stock Exchange and the financial statements of the companies. Regression analysis was used. Return on assets, return on equity, earnings per share and current assets change due to debt was analysed.

A negative relationship between debt and earnings per share was realised by 17%. A positive relationship between debt and return on assets was found at 49%. Current assets increased as debt increased by 82.5%. The results as a whole showed that financial leverage has a significant positive impact on financial performance.

The empirical literature above shows that there is no exact impact of debt on financial performance as different researchers got different findings. These studies were mainly focused on large companies listed on the stock exchange. This research aims to focus on a non-listed small company in Zimbabwe.

2.6 Summary

This chapter gave a detailed review of literature that focused on impact of debt on financial performance indicators, theories on financial performance, causes of poor financial performances and strategies that can improve financial performance. The literature has various findings and results which motivated the researcher to conduct this study. In the following chapter the research methodology and design that will be used in collecting data will be outlined.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

This chapter will describe the research design and methods to be used to collect data as to fully answer the research questions and achieve the objectives of the study as highlighted in the previous chapter. This chapter includes sources of data, study population as well as the summary of the chapter.

3.1 Research design

A research design is a systematic plan to study a problem (Creswell, 2013). It is an overall plan for connecting the conceptual research problems to the relevant empirical research. Wyk (2018) states that it articulates what data is relevant, what methods will be used to collect and analyse the data and how the information will answer the research questions. Sudeshna and Datt (2016) state that research design is a procedure consisting of steps of broad assumptions to detailed ways of collecting, analysing and interpreting data. It includes study type which can be descriptive, correlational, semi-experimental and experimental and therefore is the framework created to seek answers to research questions. It comprises of various approaches which are quantitative, qualitative and mixed approach.

3.1.1 Mixed approach

The mixed approach will be used in this study. Sudeshna and Datt (2016) define mixed approach as a method that assumes pragmatic knowledge that is both open and closed ended questions and both quantitative and qualitative data. Cameron (2015) states that it represents research that entails collecting, analysing and interpreting both qualitative and quantitative data in a study or series of studies on a common area of interest. It acts as a guide in conducting the research. It enables a better and detailed understanding that either of the approaches alone cannot fully outline. Creswell and Creswell (2018) support use of mixed approach as it usually ensures a greater in depth understanding of the area under study through offsetting the limitations of either of the approaches. It is mainly useful in a study whereby there is need to elaborate or clarify results from other methods such as when a relationship has been established through quantitative methods and is then explained through qualitative methods. It is also beneficial as stated by UK Essays (2013) that as the researcher is not limited to one method of research it may result in achieving stronger evidence, simplified results and complete

information necessary in the study. For the mixed research approach to be adopted information has to be gathered also from the personnel in the departments that directly or indirectly are related to the area of study. To be able to fully implement the mixed approach, the descriptive research method will be used.

3.1.2 Descriptive research

This is a research method that enables the researcher to provide a picture of the situation as how it realistically happens (Burns and Groove, 2013). It enables the study to oversimplify the results. It is used to collect data in conjunction with the current state to describe what happens in respect to variables in a situation. The approach enables the researcher to describe the effects of debt financing on financial performance of retail companies as it assists in understanding the nature of the problem.

3.2 Case study

This is a method that enables a detailed investigation on real life events Yin (2014). It deals with various types of evidence such as interviews observations and documents. The researcher used Workman Zimbabwe (Private) Limited as the case study to enable an in-depth research whilst taking less time as the study is solely focused on one company.

3.3 Target population

Asiamah et al (2017) states that target population is a section of the general population that remains after its refinement. It is the population that the research findings are meant to be based upon. It is the group of people that a researcher is interested in researching and analysing their views. The target population for this study is 20 employees.

3.4 Census

This is whereby data is collected from every member from the population of interest (Beins, 2017). It produces more reliable results as all individuals from the population would have been consulted thereby avoiding the limitations of sampling which can be failure to represent the entire population. In this study a census of 20 participants will be used to collect data.

Table 3.1 Target population

Participants	Target population	Questionnaires	Interviews
Directors	4	2	2
Finance managers	2	1	1
Purchasing and supply manager	1	-	1
Accountants	3	3	-
Other relevant employees	10	10	-
Total	**20**	**16**	**4**

Table 3.1 above indicates the target population that will be used to collect data. The entire target population will be included as participants in the study because the targeted population at Workman Zimbabwe is relatively small. Of the participants, 16 will be handed questionnaires and 4 participants will be interviewed.

3.5 Sources of data

This is where data is collected from and is either primary source or secondary sources of data.

3.5.1 Primary source

Wyk (2018) defines primary sources of data as the original information that is not derived from summarising, interpreting or analysing another researcher's work. It is original and unique data directly collected by the researcher from sources like case studies, questionnaires and interviews. Ajayi (2017) states that primary sources are beneficial as they provide real time data thereby making it relevant to the study. It ensures that the researcher is involved fully in collecting data specific to the study. This increases the accuracy and reliability of the information in the research.

3.5.2 Secondary source

Ajayi (2017) defines secondary sources of data as existing data collected by other previous researchers or organisations. It is quick and easy to access than primary sources of data. Examples include government publications, websites, journal articles and internal records.

Wyk (2018) states that it is an economical way of collecting data as a shorter time is required.in this study secondary data will be collected from company documents.

3.6 Data instruments

These are ways of gathering information and they supplement each other to increase the validity and dependability of the data (Zohrabi, 2013). These include questionnaires, interviews and Likert scale.

3.6.1 Questionnaires

These are series of questions presented in a written form to the respondents in which the individuals are expected to respond in writing (Ajayi 2017). These questionnaires should be valid, reliable and unambiguous. Types of questionnaires include close ended and open ended or a mixture of the two. Zohrabi (2013) states that these questionnaires are beneficial as they are efficient on a large scale basis. They can be sent simultaneously to respondents saving time for the researcher. It ensures anonymity of respondents thereby they can give detailed and unbiased opinions. Data collected is identical as the same questions are addressed to all participants thereby easier to compile the results.

3.6.2 Interviews

Zohrabi (2013) states that these are platforms that enable collection of first-hand information directly from respondents. Researcher will most likely gain a deeper understanding of the underlying reasons and motivators for the people’s preferences, behaviour or attitudes. These can be on a one to one basis or in a group. Ajayi (2017) states that interviews help to measure attitudes of people towards certain areas of interest due to face to face interactions. In depth information can be collected by asking more questions as directed by respondents’ answers. Telephone interviews are quick therefore time saving. There is a likelihood of high response rate as once a participant agrees to the interview they can answer all questions. However open-ended questions may be time consuming.

3.6.3 Likert scale

Sullivan and Anthony (2013) define a Likert scale as a scale used to represent people’s attitudes to a topic. It is a psychometric scale usually used in a research that includes questionnaires. Respondents are asked to indicate their level of agreement with the given statements. These levels range from strongly agree to strongly disagree. It gives options to participants who may

not possess much information about the topic under study (Tullis and Albert, 2012).Joshi et al (2015) states that Likert scales are beneficial as they are simple to construct and likely to produce a reliable scale that is easier to read and complete for the respondents. The researcher used the Likert scale along with questionnaires are used for the respondents to specify their level of disagreement or agreement as illustrated in Table 3.2 below.

Table 3.2 Likert scale rating

Strongly agree	Agree	Neutral/ Uncertain	Disagree	Strongly disagree
5	4	3	2	1

Source: Joshi et al (2015: 454)

3.7 Data validity and reliability

Data validity is whereby the research is believable, true and evaluates what it is supposed to evaluate (Zohrabi, 2013). It is used to assess quality and acceptability of the research. There is content validity which is the assessment of quality and quantity of the research findings. It requires cooperation from field specialists to gain professional opinions on matters under study. In this research the researcher will consult employees from Workman Zimbabwe (Pvt) Limited with professional knowledge and experience in dealing with debt finance issues to gain more valid and reliable data.

Zohrabi (2013) outlines that reliability is the consistency, dependability and replicability of results. Human contribution is more reliable through training and practice enabling informed contributions increasing the reliability of results. The researcher will ensure anonymity of respondents which can increase reliability of data collected as well as the target population are those individuals directly associated with the company debt finance operations.

3.8 Data presentation and analysis

There are various ways to present data such as graphs, tables, charts and maps (Stimpson and Smith, 2015). The data collected will be initially recorded in tabular form and tallied according to the responses from the participants. These will be summed up and the frequencies collected. The researcher will then further analyse the collected data in a more detailed manner using descriptive statistics and clarified text to outline and present qualitative data. Numerical data will be categorized and compared to establish patterns and trends. Other explanations and

justifications recorded will be presented using various methods such as tables and graphs. Inferential statistics such as, ANOVA (analysis of variance) will be used to determine the impact of debt finance on financial performance through multiple linear regression model which simplifies the relationship Innocent et al (2016).

3.9 Ethical considerations

Confidentiality of respondents will be highly maintained by the researcher. Professionalism and objectivity in gathering, analysing and presenting the data will be maintained to avoid bias results. No harmful or prohibited activities will be embarked on in conducting the research. All academic sources used in this research will be referenced. This is in accordance with the ethical considerations outlined by Miller et al (2012).

3.10 Summary

This chapter focused on methods and approaches to be used to conduct the study to be able to achieve the objectives of the study. Justifications for choices made on research instruments was outlined as well as for the population under study and the basis for selecting the sample population. The chapter that follows will be on data presentation, analysis and interpretation coming up with the overall findings.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter focuses on data presentation and analysis of the study objectives outlined in Chapter One and Two using the methodology described in Chapter Three. Both qualitative and quantitative methods were used in data presentation and analysis using research instruments from both primary and secondary sources.

4.1 Response rate to questionnaire

The questionnaires that were handed out were 16 and only 12 questionnaires were completed and returned resulting in a successful response rate of 75% which is adequate to analyse and come up with conclusions. The other 25% was from 4 questionnaires not completed as indicated by Table 4.1 below.

Table 4.1- Response rate to questionnaire

Respondents	Questionnaires distributed	Questionnaires returned completed	Response rate
Directors	2	1	50%
Finance manager	1	1	100%
Accountants	3	2	67%
Other relevant employees	10	8	80%
Total	**16**	**12**	**75%**

Table 4.1 above outlines the number of respondents that answered the questionnaires and returned them out of all the respondents to which the questionnaires were distributed to. Bryman (2014) states that a response rate above 50% is reliable as more than half of the targeted census would have represented the entire targeted population in the study. Finchman (2013) also supports the 75% response rate stating that a reliable response rate should exceed 60%. The remaining 25% which was not collected as planned comprised of employees that were not accessible at the time of research due to other work commitments. The data collected was free from any bias and the findings from the questionnaires are discussed in this chapter

4.2 Gender distribution

The research aimed at ensuring gender equality among the respondents selected as illustrated by Table 4.2 below.

Table 4.2- Gender distribution

Gender	Number of respondents	Response rate
Female	4	33%
Male	8	67%
Total	**12**	**100%**

Table 4.2 above illustrates that out of the 12 respondents 8/12 (67%) were males and 4/12 (33%) were females. As stated by Winkman (2014), when undertaking a research, gender equality is of importance to ensure bias free results taking all respondents views into account.

4.3 Education level

Table 4.3- Highest educational levels achieved by respondents

Qualification	Number of respondents	Response rate
Professional qualification	3	25%
Post graduate degree	1	8.33%
Undergraduate degree	5	41.67%
Diploma	3	25%
Total	**12**	**100%**

Table 4.3 above shows that 3/12 (25%) of the respondents have professional qualifications, 1/12 (8%) have post graduate degrees, 5/12 (42%) have undergraduate degrees and 3/12 (25%) have diplomas. All respondents have undergone tertiary education specific to their field of work. This ensures that data is gathered from qualified personnel who give professional opinions making the data more reliable.

4.4 Working experience

Table 4.4- Working experience at the company

Years	Number of respondents	Response rate
Less than 1 year	1	8.33%
1 to 5 years	5	41.66%
6 years and above	6	50%
Total	**12**	**100%**

Table 4.4 above indicates that 1/12 (8%) of the respondents has less than one year working experience, 5/12 (42%) and 6/12 (50%) have more than 6 years working experience. Majority of the respondents have been working at the company for years. This increases the reliability of the data collected as most respondents are fully aware of the company's operations.

4.5 The relationship between types of debt finance and financial performance

Debt finance can be short-term or long term debt. Workman acquired both types of debt financing to finance different types of contracts. These are acquired to improve returns but the responses indicated in table 4.5 below indicate practical results from respondents' views.

4.5.1 Short-term debt finance increases company profitability

Table 4.5- Responses to statement 4.5.1

Response	Frequency	Response rate
Strongly agree	0	0%
Agree	2	17%
Uncertain	2	17%
Disagree	6	50%
Strongly disagree	2	16%
Total	**12**	**100%**

Table 4.5 above indicates that none of the respondents strongly agree that short term debt finance increases profitability while 2/12 (17%) of the respondents agree with the statement. On the other hand 2/12 (17%) had a neutral view on the statement, 6/12 (50%) of the respondents disagreed and 2/12 (16%) strongly disagreed with the statement indicating that

short term debt does not increase profitability. Majority of the respondents are on the disagreeing side which is the modal class. This is in line with the interviewee responses that short term debt is more costly than long term debt resulting in a greater strain on profits. Kabewar (2013) supported this view in his study and concluded that short term debt has a negative significance on profitability as it is costly. Overall, short term debt does not increase profitability of the company.

4.5.2 Long-term debt finance increases return on assets

Table 4.6- Responses to statement 4.5.2

Response	Frequency	Response rate
Strongly agree	2	16.67%
Agree	6	50%
Uncertain	2	16.67%
Disagree	2	16.67%
Strongly disagree	0	0%
Total	**12**	**100%**

Table 4.6 above shows that 2/12 (17%) of the respondents strongly agreed while 6/12 (50%) of the respondents agree. The other 2/12 (17%) of the respondents were neutral, 2/12 (17%) of the respondents disagreed and no respondents (0%) strongly disagreed with the statement. Aggregately, 8/12(67%) of the respondents agree with the statement as well as the interviewees outlined that lower interest costs are incurred from long term debt and it is usually acquired to finance highly profitable contracts that will be completed over a long period of time. This is in line with what was stated by Negasa (2016) that effective use of long term debts by private companies ensures greater returns on return on assets as their main objective is to maximise shareholders' wealth. The respondents who agreed represent the mode, median and average of all respondents' indications therefore long term debt increases the company's return on assets.

4.6 Effect of debt finance on financial position indicators

4.6.1 Effect of debt finance on profitability

Table 4.7- Responses to statement 4.6.1

Response	Frequency	Response rate
Strongly positive	1	8%
Positive	3	25%
Uncertain	2	16%
Negative	4	33%
Strongly negative	2	8%
Total	**12**	**100%**

Table 4.7 above shows that 1/12 (8%) of the respondents indicated a strongly positive effect, 3/12 (25%) stated that there is a positive effect of debt on profitability. In total, 8/12 (33%) of the respondents found a positive relationship. 2/12 (16%) of the respondents indicated that there is a neutral, other respondents 4/12 (33%) indicated a negative effect and 2/12 (8%) had the view that there is a strongly negative effect. The modal class of those that indicated 'negative' on the statement also represents the average and median class by 2.5 and 2.75 respectively. The interviewees stated that the company has been acquiring more of short term debt which is costly resulting in lower profits. Makanga (2013) supports these results stating that there are various costs associated with debt finance that can eventually decrease profits such as bankruptcy costs and non-bankruptcy costs. Overall, debt finance has a negative impact on the profitability of the company.

4.6.2 Effect of debt finance on liquidity

Table 4.8- Responses to statement 4.6.2

Response	Frequency	Response rate
Strongly positive	1	8.33%
Positive	4	33.33%
Uncertain	0	0%
Negative	6	50%
Strongly negative	1	8.33%
Total	**12**	**100%**

From the questionnaire responses, 1/12 (8%) indicated that there is a strongly positive effect of debt finance on liquidity and 4/12(33%) indicated that there is a positive effect. No respondents were neutral. The other 6/12 (50%) of the respondents indicated a negative effect and 1/12 (8%) indicated that there is a strongly negative effect. In total, 7/12 (58%) of the respondents found a negative effect. The interviewees supported this view stressing out that the high short term debts acquired only ease the liquidity position temporarily thereby debt cannot be regarded as a measure that improves liquidity. Mutenheri and Munangagwa (2015) state that mismanagement of debt acquired may result in worsening the liquidity position of the entity. The modal class is that of the respondents who indicated negative effect. Conclusively, debt finance has a negative effect on liquidity.

4.6.3 Effect of debt finance on revenue

Table 4.9- Responses to statement 4.6.3

Response	Frequency	Response rate
Strongly positive	5	42%
Positive	3	25%
Uncertain	0	0%
Negative	4	33%
Strongly negative	0	0%
Total	**12**	**100%**

Table 4.9 above shows that 5/12 (42%) respondents indicated that there is a strong positive effect of debt on revenue. 3/12 (25%) indicated that there is a positive effect. 8/12 (67%) of the respondents in total share the view that debt has a positive effect on revenue. No respondents were neutral or indicated a strong negative effect of debt on revenue. This response rate was supported by the interviewees adding that debt results in ability to meet more client orders resulting in more revenue. The other 4/12 (33%) of the respondents indicated that debt negatively affects revenue. Fosu (2013) supports the majority of the respondents stating that the debt acquired can be utilised to enhance competitiveness in the market thereby increasing revenue. The modal class is that of the respondents who indicated a strong positive effect of debt on revenue. The total of those who indicated a strongly positive and positive relationship show that debt finance has a strongly positive effect on revenues.

4.6.4 Effect of debt finance on operating costs

Table 4.10- Responses to statement 4.6.4

Response	Frequency	Response rate
Strongly positive	1	8%
Positive	2	17%
Uncertain	2	17%
Negative	2	17%
Strongly negative	5	41%
Total	**12**	**100%**

Table 4.10 above indicates that 1/12 (8%) of the respondents indicated that debt finance has a strongly positive effect on operating costs and 2/12 (17%) of the respondents indicated that there debt has a positive effect on operating costs. The other 2/12 (17%) of the respondents were neutral. The other respondents, 2/12 (17%) indicated that debt finance has a negative effect on operating costs incurred by the company. Furthermore, 5/12 (41%) of the respondents indicated that debt finance has a strongly negative impact on operating costs. This is also the modal class thereby debt has a negative effect on the operating costs of the company. The interviewees outlined that debt results in an increase in costs thereby debt is undesirable when considering effect on costs. Lee (2013) supports these results adding that, high financial leverage results in low profitability due to high debt servicing costs.

4.7 Other possible causes of a negative financial performance

4.7.1 Ineffective budgeting results in unachievable targets resulting in greater variances

Table 4.11- Response rate to statement 4.7.1

Response	Frequency
Strongly positive	5
Positive	3
Uncertain	2
Negative	2
Strongly negative	0
Total	**12**

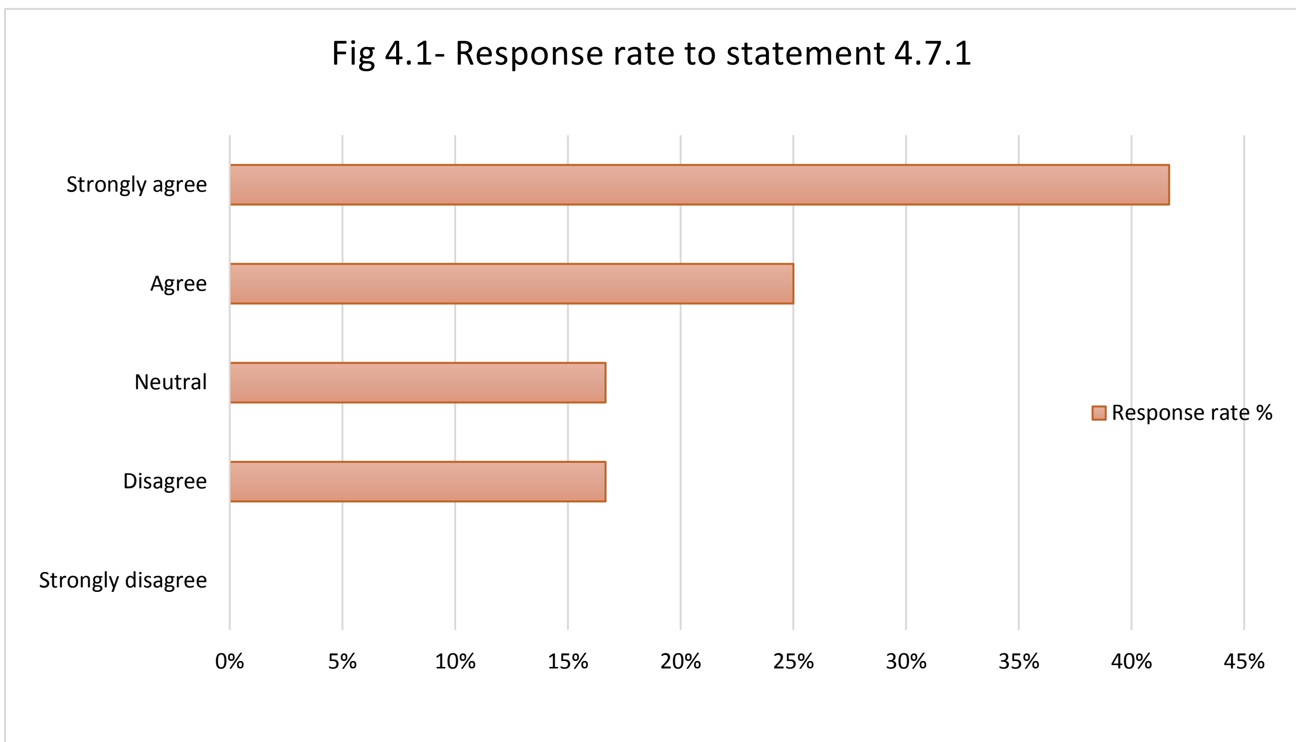

Figure 4.1 above shows that 5/12 (42%) of the respondents strongly agree that ineffective budgeting results in unachievable budgets leading to poor performance. 3/12 (25%) of the respondents agree with the statement. In total, 8/12 (67%) of the respondents agree with the statement. Other respondents, 2/12 (17%), were neutral. On the other hand, 2/12 (17%) of the respondents disagreed with the statement whilst no respondents strongly disagreed with the statement. The interviewees did not raise poor budgeting as a possible cause of poor performance. The modal class 5/12 indicate that ineffective budgeting results in unrealistic budgets leading to greater variances that translate to poor financial performance.

4.7.2 Poor budgeting does not motivate employees to improve performance

Table 4.12- Responses to statement 4.7.2

Response	Frequency	Response rate
Strongly agree	6	50%
Agree	2	17%
Neutral	1	8%
Disagree	2	17%
Strongly disagree	1	8%
Total	**12**	**100%**

Table 4.12 above indicates that 6/12 (50%) of the respondents strongly agreed to the statement that poor budgeting negatively affects employee motivation and 2/12 (17%) of the respondents agree to the statement. Neutral respondents were only 1/12 (8%). On the disagreeing side, 2/12 (17%) disagreed with the statement whilst 1/12 (8%) of the respondents strongly disagreed with the statement. The interviewees did not outline poor budgeting as a possible cause of a decline in financial performance. Majority of the questionnaire respondents agreed with the statement therefore, poor budgeting demotivates employees leading to a decline in performance.

4.7.3 Poor internal controls result in unreliable financial statements

Table 4.13- Response rate to statement 4.7.3

Response	Frequency
Strongly positive	2
Positive	7
Uncertain	1
Negative	2
Strongly negative	0
Total	**12**

Fig 4.2- Response rate for statement 4.7.3

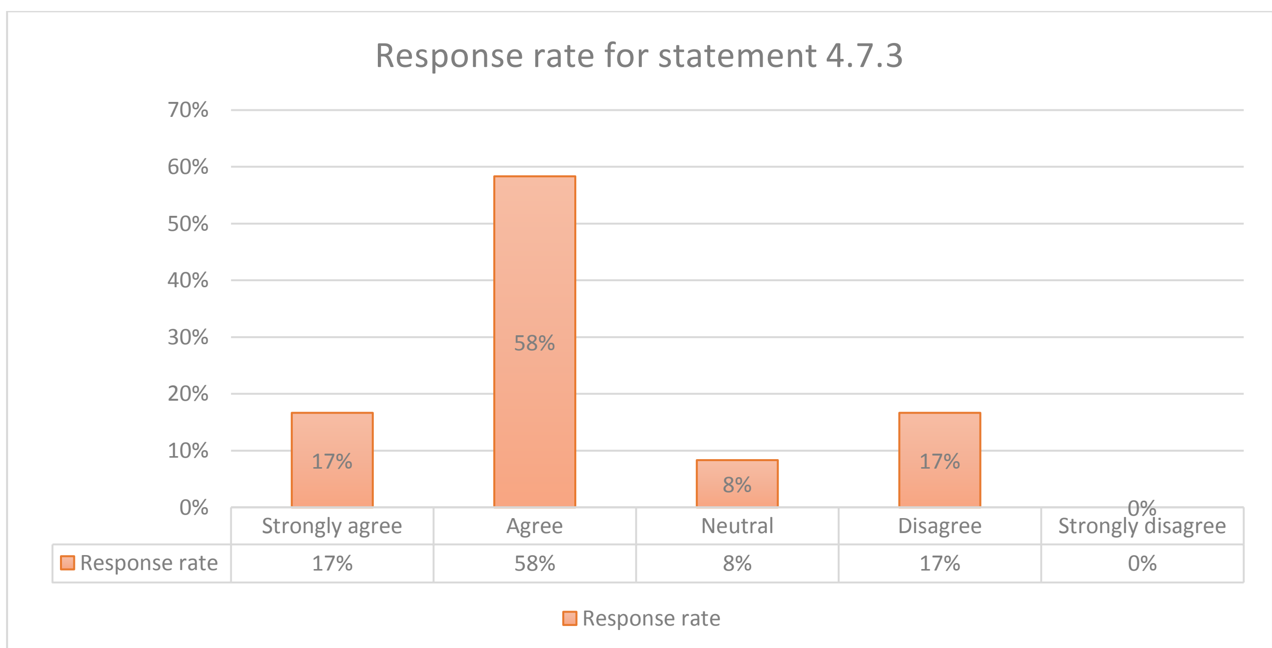

Fig 4.2 and Table 4.13 above shows that 2/12 (17%) of the respondents strongly agree and 7/12 (58%) agree with the statement that poor internal controls result in unreliable financial statements. Other respondents, 1/12 (8%) was neutral and those who disagreed were 2/12 (17%) and no respondents strongly disagreed. The researcher asked the interviewees on the possible causes of the current decline in performance the entity is experiencing and no respondent outlined poor internal controls. Rennox (2017) supports the results from the questionnaire outlining that poor internal controls can result in asset loss that may not be fairly accounted for resulting in unreliable financial statements. Therefore, poor internal controls result in unreliable financial statements.

4.7.4 Lack of internal audit function creates loopholes in internal controls thereby reducing financial performance.

Table 4.14- Response rate to statement 4.7.4

Response	Frequency	Response rate
Strongly agree	6	50%
Agree	3	25%
Neutral	1	8%
Disagree	2	17%
Strongly disagree	0	0%
Total	**12**	**100%**

Table 4.14 above shows that 6/12 (50%) of the respondents strongly agreed and 3/12 (25%) of the respondents agreed with the statement. Neutral respondents were 1/12 (8%) and those who disagreed were 2/12 (17%) of the respondents and none of the respondents strongly disagreed with the statement. No interviewees mentioned lack of audit function as a possible cause of low financial performance. Various other researchers support the view of questionnaire respondents. Njeri (2013) and Nyakundi (2014) state that lack of internal audit function encourages evasion of policies and procedures resulting in poor performance.

4.7.5 Poor corporate governance results in unclear guidelines for top management negatively affecting performance.

Table 4.15- Response rate to statement 4.7.5

Response	Frequency	Response rate
Strongly agree	1	8%
Agree	2	17%
Neutral	0	0%
Disagree	6	50%
Strongly disagree	3	25%
Total	**12**	**100%**

Table 4.15 above indicates that 1/12 (8%), 2/12 (17%) agree, no respondents were neutral. The other 6/12 (50%) respondents disagreed while 3/12 (25%) of the respondents strongly disagreed with the statement. The total respondents who disagree 9/12 (75%) indicate that poor corporate governance does not affect performance. Poor corporate governance was not mentioned by the interviewees as a cause of poor performance. This questionnaire results are in line with Shahwan (2015) findings which outlines that corporate governance has insignificant influence on financial performance. From the responses it can be concluded that poor corporate governance does not affect the financial performance of the entity.

4.7.6 Stiff competition lowers revenue levels

Table 4.16- Response rate to statement 4.7.6

Response	Frequency	Response rate
Strongly agree	8	67%
Agree	4	33%
Neutral	0	0%
Disagree	0	0%
Strongly disagree	0	0%
Total	**12**	**100%**

Table 4.16 above shows that 8/12(67%) of the respondents strongly agreed with the statement and 4/12 (33%) agreed. No respondents were neutral, disagreed or strongly disagreed with the statement. In total 100% of the respondents agree that high competition lowers revenues. The interviewees agreed with this view that competition lowers revenue levels. Phiri (2017) also found these findings from his study that competition lowers revenues for SMEs especially when the competitors are mainly large enterprises. It can be concluded that stiff competition lowers revenues.

4.7.7 Harsh economic conditions reduce revenues for the entity

Table 4.17- Response rate to statement 4.7.7

Response	Frequency	Response rate
Strongly agree	9	75%
Agree	2	17%
Neutral	1	8%
Disagree	0	0%
Strongly disagree	0	0%
Total	**12**	**100%**

Table 4.17 above shows that 9/12 (75%) of the respondents strongly agree and 2/12 (17%) agree. Only 1 respondent out of al 12 was uncertain and no respondents disagreed or strongly disagreed with the statement. This indicates that 11/12 (92%) of the respondents agreed that harsh economic conditions reduce revenues for the entity. The interviewees also outlined that a bad economy fosters reduction in revenues for the company. Gray (2016) supported this view adding that harsh economic conditions such as high interest rates and inflation reduce the disposable incomes of people that they reduce their expenses to basic commodities leaving many companies in a depression state. The responses show that harsh economic conditions reduce financial performance of the company through lower revenues.

4.8 Measures that can be used to improve financial performance

4.8.1 Employee motivation to improve productivity and sales

Table 4.18- Response rate to statement 4.8.1

Response	Frequency	Response rate
Strongly agree	6	50%
Agree	4	33%
Neutral	2	17%
Disagree	0	0%
Strongly disagree	0	0%
Total	**12**	**100%**

Table 4.18 above shows that 6/12 (50%) of the respondents strongly agree with the statement and 4/12 (33%) of the respondents agree that employee motivation improves productivity and sales. Neutral respondents were 2/12 (17%) and no respondents disagreed or strongly disagreed. The modal class is 5 (strongly agree) on the 5 point scale. In total 10/12 (83%) of the respondents agree with the statement. Motivation as a measure to improve performance was also supported by the interviewees Achim and Dragolea (2013) state that motivation ensures employees are aware of what they should do and are fairly remunerated and their opinions are equally considered raising their satisfaction.

4.8.2 Debt factoring to improve liquidity

Table 4.19- Response rate to statement 4.8.2

Response	Frequency	Response rate
Strongly agree	0	0%
Agree	3	25%
Neutral	1	8%
Disagree	6	50%
Strongly disagree	2	17%
Total	**12**	**100%**

Table 4.19 above shows that no respondents strongly agreed, 3/12 (25%) agreed, neutral respondents were 1/12(8%) and those who disagreed were 6/12 (50%). 2/12 (17%) of the

respondents strongly disagreed. Majority of the respondents, 8/12 (67%), disagreed with the statement that debt factoring improves liquidity and is therefore useful in improving financial performance. This is in line with Hoti (2014) findings that funds from factoring are short lived and may not effectively improve the liquidity position of a company.no interviewee mentioned debt factoring as a measure to improve financial performance through liquidity. It can be concluded that debt factoring does not improve liquidity position of the entity.

4.8.3 Diversification to increase market share and revenue

Table 4.20- Response rate for statement 4.8.3

Response	**Frequency**	**Response rate**
Strongly agree	3	25%
Agree	8	67%
Neutral	0	0%
Disagree	1	8the%
Strongly disagree	0	0%
Total	**12**	**100%**

Table 4.20 above indicates that 3/12 (25%) respondents strongly agreed and 8/12 (67%) respondents agreed. No respondents were neutral and none strongly disagreed. The other 1/12 (8%) disagreed. The total of those who agreed is 11/12 (92%) as supported by Kuria (2016) that diversified firms have a better financial performance than undiversified through increased market share which translates to more revenues for the company. The interviewees mentioned diversification as a desirable measure that can be implemented to improve company financial performance. From the respondent’s views, diversification is a good option to improve revenues.

4.8.4 Government assistance to raise funds to improve operations

Table 4.21- Response rate for statement 4.8.4

Response	Frequency	Response rate
Strongly agree	0	0%
Agree	2	16%
Neutral	0	0%
Disagree	5	42%
Strongly disagree	5	42%
Total	**12**	**100%**

Table 4.21 above indicatess that no respondents strongly agreed or were neutral to the statement. Those who agreed were2/12 (16%) , 5/12 (42%) disagreed and 5/12 (42%) strongly disagreed. The mode is 4 respresenting the respondends who disagreed. The total responds who disagree are 10/12 (84%) which is the majority. Zhang et al (2014) stated that government assistance may not be of much help to finance businesses due to bureaucracy and political issues. No interviewees mentioned government assistance as a measure to improve financial performance therefore, government assistance is not a measure the company can adopt to improve its financial performance.

4.9 Interview questions responses

The researcher scheduled interviews with four people in the management of Workman Zimbabwe (Private) Limited. These were two directors, finance manager and the purchasing and supply manager. Table 4.22 below shows the actual response rate that occurred

Table 4.22- Interviews response rate.

Respondent	Interview planned	Interview done	Response rate
Directors	2	1	50%
Finance manager	1	1	100%
Purchasing and supply manager	1	1	100%
Total	**4**	**3**	**75%**

Table 4.22 above shows that there was a 75% successful response rate. The other 25% is one director was not accessible at the time of research due to a business trip abroad. The respondents who participated represented the relevant departments to the study and all are management with qualifications and years of experience making them experts in their field of work . Finchman (2016) outlines that a research response rate above 60% is regarded as useful as it represents a greater portion of the targeted population.

4.9.1 How does short and long term debt affect the financial perfomance of an entity?

All the interviewees agreed that both short-term and long-term debt have an effect on the financial perfomance of an entity. They all stated that long term debt is acquired to finance large contracts to be completed over a period of time hence they attract lower interest costs. They also have longer repayment periods which ensure more time to conduct operations enough to be able to pay back. Overally, the benefits outweigh the costs making long term debt to positively affect the financial perfomance of the entity.

Majority of the respondents stated that short-term debt allows an entity to meet current finance requirements and is therefore useful. However these attract more interest rates than long term debts and have shorter repayment periods such that the business may not be able to gather all funds to repay the debt at the same time realising profits. This in turn affects the liquidity of the company. These responses agree with the questionnaire responses in that short term debt has a negative relationship with performance while long term debt has a positive relationship with financial performance.

Conclusively, short term debt negatively affects profitability while long term debt positively affects profitability. This is in line with the modes in the questionnaires and in line with Kabewar (2013) who outlined that short term debt is more costly than long term debt.

4.9.2. What are the financial performance indicators affected by debt financing?

The interviewees stated that there are various indicators affected by debt finance. These include return on assets, acid and liquid ratios, interest cover, opeating expenses/sales and gearing ratios. These translate to interest charges, revenue, profits, liquidity, oprating expenses and the capital strucure. These indicators are supported by Pradhan (2017), Elliot (2014) and Selcuk (2016).

4.9.3 How are the indicators affected by debt financing?

The interviewees explained the positive and negative effects caused by debt finance on the financial performance of the entity. Debt finance improves productivitty, rreveues and profits of the company. However, with the prevailing interest rates the interest charges increase the costs leaving less profits to be enjoyed. Debt finance improves liquidity at the time of acquisition but does not continue to maintain that liquidity position in the longrun. Lee (2013) supported this view stating that debt servicing reduces liquidity for a financially struggling firm. Debt finance improves capital strucure but more debt lessens equity thereby the company will be liable to more creditors than shareholders. This is not an attractive situation for the shareholders and potential creditors. Makanga (2013) supported this view outlining that high debt result in non-bankruptcy costs such as creditors reducing repayment periods. Overally, high debt levels have more costs than benefits such that the high debt has a negative impact on the financial perfomane of the entity. This agrees with questionnaire responses that high financial leverage is costly to the entity.

4.9.4 What are the other possible causes of performance decline in the entity?

The interviewees outlined various other possible causes of poor perfomance in the entity.The interviewees stated that the current location of the business is a new residential area where profitable niche marketing was shortlived. Now the market share has significantly declined resulting in lower revenues.Competition has been a great challenge for the company due to the nature of the industry which involves both manufacturers who do wholesaling and retailing and other retailers. The interviewees outlined government laws with particular reference to import laws. To import products that are not available locally, extensive evidence is required and it becomes a lengthy process. This has increased purchasing costs, tax expense and inability to meet client deadlines. Phiri (2017) and Gray (2016) agree that competition, economic conditions and technology affect financial performance of an entity.

The interviewees went on to outline that, economic conditions such as the current liquidity crisis, lack of foreign currency, high interest rates and inflation has negatively affected the company resulting in high bank charges, lack of foreign currency and high selling prices which negatively affects the financial performance.Using outdated technology through using manual books to record cash sales promotes theft as there is no real time update on inventory records. It also results in ordering products when the inventory items have completed resulting in lost

sales. These causes agree with questionnaire responses and also adds various other causes besides those outlined in the questionnaire.

4.9.5 What measures can be implemented to realise a shift in the financial performance of the entity?

The interviewees stated various possible measures that the company can implement to improve the financial perfomance. Among these were investing in advanced technology, adopting new marketing strategies, diversification and employe motivation. Some of these atrategies are in line with those outlined in chapter two.

Advanced technology can be used to en hance the inventory system thereby ensuring efficienct and transparent inventory movements to reduce unaccounted inventory loss. Wu et al (2014) supports this view adding that adoption of advanced technology reduce operating costs and improve profitability.New marketing strategies can be adopted to venture into new markets through diversification and to reach other geograaphical areas to widen the company's market share. Acquiring a more spacious location would enable storage facilities to ensure that the company enjoys bulk discounts for bulk purchases and also ensures that inventory is always available for client's orders. This helps to create a stable customer base and charge lower prices due to lower ordering costs as the purchasing will be done in bulk. Employee motivation through commision based pay, setting clear targets, involvement of employees in meetings and awarding good perfomance will improve employee productivity and customer service leading to enhanced financial performance. Richardson (2014) stated that employee motivation is crucial as it results in improved employee perfomance resulting in a better company financial performance.

These strategies agree with the results from questionnaires that encouraged implementation of employee motivation and diversification. From the interviews, advanced technology and other marketing strategies can be implemented to realise a positive shift in the financial performance of the entity.

4.10 Inferential statistics

The study used regression analysis to depict the relationship between debt finance and financial performance at Workman Zimbabwe (Private Limited). Profitability was used as a measure of financial performance (dependant variable). Short- term debt and long-term debt were used as the independent variables. The data was analyssed and presented using the SPSS package. The results are outlined below.

Model Summary

Mode l	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.984	.973	719.974

a. Predictors: (Constant), long, short

ANOVA[a]

		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94963193.895	2	47481596.947	91.599	.002[b]
	Residual	1555088.938	3	518362.979		
	Total	96518282.833	5			

a. Dependent Variable: profit

b. Predictors: (Constant), long, short

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	29564.287	1257.590		23.509	.000
	Short	-3.651	.928	-5.179	-3.935	.029
	Long	.219	.068	4.222	3.208	.049

a. Dependent Variable: profit

The results above indicate that there is a significant relationship between debt and financial performance. This is indicated by a p value of 0.002045 (0.25%) which is below 5% making the effect significant. Both long term and short term debt have p values less than 5% at

0.029231 (2.92%) and 0.04936 (4.93%) respectively. The study had a coefficient of determination at 0.984 (98%) meaning that 98% of the variations in financial perfomance are affected by short term and long term debt.

Short term debt has a negative beta at -5.179 ndicating a negative relationship between short term debt and financial performance. The t-test value of -3.935 shows that the effect of short term debt surpasses error by 3 times. This agrees with the results from questionnaires that short term debt negatively affects financial performance.

Long term debt has a beta of 4.222 indicating a positive relationship between long term debt and financial performance. T-test value was 3.208 meaning the effect of lon term debt surpasses the error by 3 times. This agrees with the respondents views that long term debt has a positive effect on financial performance. Overally, short term debt has a greater significance than long term debt. This agrees with questionnaires and interview responses on that short term debt increases costs and long term debt increases profitability as supported by Kabewar (2013).

4.11 Summary

This chapter focused on the analysis and presentation of primary and secondary data. This information was gathered fromquestionnaire, interviews and company financial statements. The analysis enabled the researcher to come up with informed conclusions to ensure useful and relevant recommendations outlined in the next chapter.

CHAPTER 5

SUMMARY, RECOMMENDATIONS AND CONCLUSION

5.0 Introduction

This chapter gives a summary of all other chapters in this research, giving conclusions on the study and outlining necessary recommendations that can be implemented by the company as well as other suggested areas of study.

5.1 Summary of the chapters

5.1.1 Chapter 1

This chapter outlined the background of the study to establish the statement of the problem outlining that Workman Zimbabwe (Pvt) Limited was experiencing declining profits and greater variances from 2015 to 2017. This gave rise to the main research objective which was to determine the impact of debt finance on financial performance as well as research objectives and research questions. The objectives outlined include establishing the effect of debt on financial position indicators, outlining other possible causes of poor financial performance and indicating the measures that can be implemented to improve financial performance. Also included in this chapter are assumptions of the study, limitations and delimitations of the study.

5.1.2 Chapter 2

This chapter focused on the review of literature from previous researchers on studies that relate to the objectives of this study. The views from previous researchers were outlined and analysed in relation to the objectives. Theoretical review focused on the literature on the objectives of the study and empirical review focused on case study researches conducted in other countries such as Rwanda and South Africa on the effects of debt finance on company financial performance. The main authors with literature reviewed in this chapter include Dube (2013), Kabewar (2013) and Makanga (2013).

5.1.3 Chapter 3

The research methods used to conduct the study were detailed in this chapter. A mixed research approach was used to collect quantitative and qualitative data. A census of the entire target population was used to collect data as the census consisted of 20 people. Data instruments for

the study outlined were questionnaires and interviews. Regression analysis was outlined as the method used to analyse secondary data from company financial statements.

5.1.4 Chapter 4

In this chapter, data was collected using questionnaires, interviews and company financial statements. A 75% response rate was achieved from both questionnaires and interviews. Presentation was done in the form of graphs and tables and analysed using the regression analysis in order to answer the research questions. The SPSS package was used to calculate the regression between debt and financial performance. Conclusions were made based on modes, percentages of response rates, interviewee opinions and statistical results.

5.2 Major findings

5.2.1 The effects of short term and long term debt on financial performance

The researcher found out from the questionnaires, interviews and regression analysis that short term debt has a negative effect on profitability due to high interest and repayment costs associated with this type of debt finance. Long term debt finance on the other hand has a positive effect on the profitability of Workman Zimbabwe (Pvt) Limited. This is due to the longer repayment period allowing time to realise returns and even invest them back in the business before fully repaying the debt. It also attracts lower interest rates ensuring lower costs for the company.

5.2.2 Impact of debt finance on financial position indicators

The findings were that debt has varying effects on the different financial position indicators. Debt has a positive effect on profitability and revenues as the company would be able to meet large client orders and in time, ensuring that more revenues are realised and these are translated into more profits. There is also a positive effect between operating costs and debt as more interest charges will be incurred to meet the terms of added debt finance. A negative relationship exists between debt and liquidity as debt acquired is easily used to finance the operations leaving most liquid assets being trade receivables and inventories.

5.2.3 Other possible causes of poor financial performance

The researcher found out that poor budgeting results in unrealistic targets and loss of direction of the entity resulting in lower performance. Poor internal controls and lack of internal audit function to continuously oversee the implementation of these controls results in poor financial

performance. Additionally, stiff competition, harsh economic conditions, undesirable location, strict government laws and outdated technology are also causes of the poor performance the company is experiencing. However corporate governance does not influence the company's financial performance.

5.2.4 Ways to improve financial performance

The results from the study indicated that employee motivation, diversification, advanced technology, advanced marketing strategies and a better location will ensure a positive shift in the financial performance of the entity. These strategies can encourage employees to work more diligently and efficiently through motivation and advanced technology. An increase in market share can be realised through advanced marketing strategies, diversification and relocation thereby improving the company's financial performance.

5.3 Conclusion

This research study was successful in meeting its main objective which was to determine the effect of debt finance on the financial performance of the entity. There is a positive effect of long term debt on financial performance and a negative effect of short term debt on financial performance. The review of other possible causes of poor financial performance indicated that not only debt finance is a contributor but there are other factors that affect financial performance. This gave rise to the formulation of recommendations to the company.

5.4 Recommendations

According to the findings and conclusions from the research, the company can implement the following recommendations.

- The company can seek more long term debt capital as opposed to short term debt finance as it proves to be less costly for the entity as outlined by Nunes and Serrasqueiro (2017).
- The management of the company can implement modern budgeting techniques such as bottom up approach so as to set more practical targets taking into account other employees' opinions. As stated by Amakobe (2017) this will help to reduce the negative variances between budgeted amounts and actual amounts.
- The company can outsource the auditing function or establish an internal audit function to ensure formulation and effective monitoring of internal controls to reduce errors and

fraud which may distort financial statements' true view. Bodekal and Fagelsho (2014) state that audit is essential as International Accounting Standards are adapting to SMEs.

- The management can implement improved marketing strategies such as open in another location in the central business district, adopt product diversification and other promotional strategies to improve the company's revenues (Dhir and Dhir, 2015).

5.5 Suggestions for future study

This research was based on Workman Zimbabwe (Pvt) Limited only. Further researches can be conducted on other retail firms in Zimbabwe to determine the effects of debt performance on financial performance of a company. Other researches can be done based on a longer time series as this research only focused on the financial performance of the entity from 2015 to 2017.

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APPENDIX 1: LETTER OF REQUEST

Midlands State University

P.O. Box 9055

Gweru

The Finance and Administration Manager

Workman Zimbabwe (Private) Limited

Unit 8 Madokero Industrial Park

Madokero Estate

Harare

16 April 2018

Dear Sir

REF: REQUEST FOR PERMISSION TO COLLECT RESEARCH DATA

My name is Ruth Koshita, a fourth year student at Midlands State University. I am currently conducting a study on **THE IMPACT OF DEBT FINANCE ON THE FINANCIAL PERFORMANCE OF WORKMAN ZIMBABWE PRIVATE LIMITED, A SMALL TO MEDIUM ENTITY.** This is in partial fulfilment of The Bachelor of Commerce Honours Degree in Accounting.

I kindly seek permission to collect data from your company through questionnaires and interviews. The data collected will be regarded as confidential and used only for academic purposes.

Your permission is greatly appreciated

Yours faithfully

Ruth .N. Koshita (R145786V)

Midlands State University

P.O. Box 9055

Gweru

Workman Zimbabwe (Private) Limited

Unit 8 Madokero Industrial Park

Madokero Estate

Harare

16 April 2018

Dear Respondent

REF: REQUEST TO RESPOND TO QUESTIONNAIRE AND INTERVIEWS

My name is Ruth Koshita, a fourth year student at Midlands State University. I am currently conducting a study on **THE IMPACT OF DEBT FINANCE ON THE FINANCIAL PERFORMANCE OF WORKMAN ZIMBABWE PRIVATE LIMITED, A SMALL TO MEDIUM ENTITY.** This is in partial fulfilment of The Bachelor of Commerce Honours Degree in Accounting.

I kindly request you to assist by responding to questions in the questionnaire attached. Any data provided will be regarded as confidential and used for academic purposes only.

Your effort in answering the questionnaire is greatly appreciated.

Yours faithfully

Ruth .N. Koshita (R145786V)

APPENDIX 2: QUESTIONNAIRE

Instructions:

1. Please do not write your name for confidentiality purposes.

2. Indicate your appropriate answer in the box provided

PART 1: DEMOGRAPHIC CHARACTERISTICS

1. Gender :

Male ☐ Female ☐

2. Highest education level :

Professional qualification ☐

Post graduate degree ☐

Undergraduate degree ☐

Diploma ☐

3. How many years have you been working at this company?

Less than one year ☐ 1 to 5 years ☐

6 years and above ☐

PART 2: QUESTIONNAIRE

May you please respond by specifying the extent to which you agree or disagree with the statements written below by ticking where appropriate in the spaces provided.

1. **The relationship between debt financing and financial performance**

	Strongly Agree	**Agree**	**Neutral/ Uncertain**	**Disagree**	**Strongly Disagree**
a) Long term debt finance increases return on assets					

1. **Effect of debt finance on financial position indicators**

Indicator	**Strongly Positive**	**Positive**	**Neutral/ Uncertain**	**Negative**	**Strongly Negative**
a) Profitability					
b) Liquidity					
c) Revenue					
d) Operating costs					

2. **The following are other causes of a negative financial performance**

Cause	**Strongly Agree**	**Agree**	**Neutral/ Uncertain**	**Disagree**	**Strongly Disagree**
a) Ineffective budgeting results in unachievable targets resulting in greater variances.					
b) Poor budgeting does not motivate employees to improve performance.					

c) Poor internal controls result in unreliable financial statements.					
d) Lack of internal audit function fosters loopholes in internal controls thereby reducing financial performance.					
e) Poor corporate governance results in unclear guidelines for top management negatively affecting performance					
f) Stiff competition lowers revenue levels					
g) Harsh economic conditions reduce revenues for the entity					

3. The following measures can be used to improve financial performance

	Strongly Agree	**Agree**	**Neutral/ Uncertain**	**Disagree**	**Strongly Disagree**
a) Employee motivation to improve productivity and sales					
b) Debt factoring to improve liquidity					
c) Diversification to increase market share and revenue					
d) Government assistance to raise funds to increase operations					

Any other comment relevant to the research

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Thank you for your cooperation, contribution and time

APPENDIX 3: INTERVIEW

Interview guide

1. How does short term and long term debt finance affect financial performance of an entity?

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2. What are the financial performance indicators affected by debt financing?

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3. How are the indicators affected by debt financing?

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4. What are the other possible causes of the performance decline in the entity?

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5. What measures can be implemented to realise a positive shift in the financial performance of the entity?

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APPENDIX 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.984	.973	719.974

a. Predictors: (Constant), long, short

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94963193.895	2	47481596.947	91.599	.002[b]
	Residual	1555088.938	3	518362.979		
	Total	96518282.833	5			

a. Dependent Variable: profit

b. Predictors: (Constant), long, short

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	29564.287	1257.590		23.509	.000
	short	-3.651	.928	-5.179	-3.935	.029
	long	.219	.068	4.222	3.208	.049

a. Dependent Variable: profit