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**FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING**

**THE IMPACT OF DEBT FINANCE ON FINANCIAL
PERFORMANCE OF A FIRM: A CASE OF CITY OF MUTARE**

BY

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*The dissertation is submitted in partial fulfilment of the requirements of **Bachelor of Commerce Accounting Honours Degree** in the Department of Accounting at MSU.*

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DEDICATION

I dedicate this dissertation to the Almighty for providing guidance during the time of research.

I also dedicate this dissertation to my family and friends for their motivation and support.

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Special and sincere gratitude goes to the Lord Almighty. Without the grace of the Lord, I could not have made it this far.

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ABSTRACT

The purpose of this study was to determine the impact of debt finance on financial performance of a firm using City of Mutare as a case. City of Mutare adopted debt financing in order to enhance their financial performance but their trend analysis illustrated a decline in profit margins at an average rate of 45.03% per annum since 2014, this motivated the researcher to carry out this study. The study employed a mixed approach in carrying out the study which include both quantitative and qualitative approach. The research data was gathered from questionnaires and interviews, with questionnaires yielding a response rate of 84.21%, whilst there was 100% response rate for interviews. The statistical packages used for regression analysis were Excel and Stata 14.2 and the independent variables were long term debt, short term debt, total debt and tangibility and ROA was the dependent variable in the study. The major research findings from the information obtained were that City of Mutare adopted a poor debt financing and it is not effectively maintained resulting in poor financial performance and also the study found out that there are other benefits of debt financing which can enhance financial performance given that debt is effectively maintained and kept at an optimal debt ratio. The researcher concluded this study by recommending City of Mutare management to reduce their debt financing and rely more on internal funds because they are cheap and easy to maintain and they do not result in external contractual obligations. Lastly, the researcher stated that the company should utilize debt as the last resort and should be kept at a low and optimal level in order to maximize profits.

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CHAPTER ONE

1.1 INTRODUCTION

This research is going to analyse the impact of debt finance on financial performance of City of Mutare. City of Mutare is a local authority which has been relying on debt finance in funding its water projects so as to improve its financial performance. This chapter contains background of study which briefs the situation in the firm.

1.2 BACKGROUND OF STUDY

Previous researchers have focused their studies on the relationship between debt finance and financial performance of manufacturing firms in developed countries. Achaeampong(2014), Githiaga and Kabiru(2015),Harward (2017),Yazdanfar and Ohman(2015) and Muchiri et al (2016)agree that debt finance ,as capital investment, has a positive relationship with financial performance ,as it reduces free cash flow problems which can reward high cash flows.Obuya (2017) and Lemma and Negash (2013) note that a significant positive impact is experienced as debt financing can help the firm invest in long term projects thereby expanding the operations of the firm and increasing profits and growth. Xu et al (2016), Tauseef (2015) and Winn (2014) went on to say that an optimal debt ratio can be maintained and tax deductibility of interest which results in profits being maximized. In contrary, Wachira (2014), Naiseku and Susan (2016), Alocock et al (2013) and Vatavu (2015) argued that continuous debt financing chases away investors due to potential bankruptcy risks and agency conflicts between shareholders and debt holders. Also, highly leveraged firms lose market share to lowly leveraged firms as highly leveraged firms have more debt and are prone to bankruptcy. Zheng (2013), Modi (2014) share a similar view as they say that the negative relationship and impact of debt financing is related to firms as they have to pay up the accruing interests which increases the interest expense thus

negatively having an impact on profits and stock prices. Debt finance impact remained in endless argument. Previous researchers focused on manufacturing firms in developed countries where they operate in stable economies. This research is therefore going to analyse the impact of debt finance on financial performance and profitability of local authorities using Return on Assets as a measure.

Debt finance has an impact in the financial leverage of many organisations as more debt financing is associated with a higher leverage Acheampong et al (2014). It can be short or long-term debt. An optimal debt ratio is able to maximizes profits and failure to maintain an optimal ratio and continuous debt financing negatively affects profits. City of Mutare adopted debt financing ,from FBC Bank, for funding and expanding long term projects (water projects) and other day to day operations as a way of improving its performance. The Table 1.1 below shows trends in water revenue for the years 2014-2016.

Table1.1 measurement of revenue from the water project

YEAR	2014	2015	2016
Budgeted water revenue	\$180 512	\$189 000	\$194 572
Actual water revenue	\$179 223.44	\$188 567.73	\$190 575.55
Variance	\$1 288.56	\$432.27	\$3 996.45

(Source) Annual financial Reports (2014 to 2016)

Table 1.1 shows financial performance of City of Mutare, showing the actual water revenue against budgeted water revenue, the difference being the variance for 3 years between 2014 and 2016. Table 1.1 shows that the business was unsuccessful in achieving revenue from water as the actual revenue was always lesser than the budgeted revenue during the period under study, despite revenue increasing yearly. The year 2016 recorded the highest adverse variance of 2.05% (\$3 996.45) which is followed by a variance of 0.71% (\$1 288.56) in 2015 and the least variance of 0.23% (\$432.27) in 2014. According to City of Mutare, Finance Department (2016) the adverse variance was attributed by the resistance of ratepayers to pay water bills and their tendency of going for compliments like boreholes, thereby they had a source of free water than the expensive council water, though debt finance was taken in expanding and improving the water project so that ratepayers would derive from boreholes and well and pay the council. This included establishing pre-paid meters. City of Mutare uses debt finance in improving and expanding and establishing its water project. This is evidenced because debt finance was used to the purchasing of new water pumps and building new tanks for new stands like Gimboki and Natville thereby helping in expanding the water project and source of water revenue. However, despite debt financing project, revenue received failed to meet the target set thereby not being able to break-even with the debt finance. This is because debt finance only improved services but would not guarantee or persuade ratepayers to pay their bills due to resistance to pay. Debt finance only expanded and improved the project but did not persuade ratepayers to pay. In order to finance this ongoing water project, management decided to increase the debt finance continuously as so as to enhance the revenue to rise above the budgeted through improving water services. This led to City of Mutare being highly leveraged through adopting high and continuous debt finances, thus having its negatives to be discussed.

City of Mutare then experienced adverse interest expenses due to the continuous debt financing thus affecting the trend of profits in the long -run as shown by the table below.

Table 1.2 measurement of performance of the company

YEAR	2014	2015	2016
Borrowed funds	\$120 000	\$125 000	\$235 000
Interest charges (10%)	\$12 000	\$12 500	\$23 500
Profit/loss from water project	\$49227.44	\$33901.73	\$13927.45

(Source) Annual financial Reports (2014 to 2016)

Table 1;2 shows the financial performance of City of Mutare, showing the increase in borrowed funds and interests and the trend in profits from the water projects. From the above Table 1;2, it can be illustrated that debt finance increased by \$5 000 that is 4.17% increase between 2014 and 2015. There was a sharp increase of \$110 000 that is an 88% increase in 2016. This was due to the funding of the long -term water project thereby continuous debt financing was used to finance the operations. An increase by 4.17% in borrowed funds was observed in 2015, Annual financial reports (2016) and an increase by 88% was experienced in 2016 prior to the previous year 2015 annual reports (2016). This led to a \$500 interest rise which is 4.17% rise in interests' rates in 2015 prior to 2014 and a rapid rise of \$11 000 which is 88% in 2016 due to the continuous and increasing debt thus poor debt financing. This had an effect on realised profits from the water project. Table 1;2 shows that there was a decrease in profits between 2014 and 2015 because there was no optimal debt ratio and there was an increasing interest burden from FBC bank and high agency costs thus profits decreased by \$15 325.71 thus a 31.13% decrease. Also, in 2016,

profits declined from \$33 901.73 in 2015 to \$13 927 and a rapid decrease of 58.92%. This was because of the continuous and high debt financing thus increasing leverage and not maintaining an optimal debt ratio. Concerns were expressed by the finance director and the chief accountant that as revenue increased so did the interest charges thereby failing to enhance profitability. This also increased the leverage of the firm thereby increasing debt and recurring interest expenses. Debt finance was for funding the water projects. It is evidenced that revenue generated from the water project increased but could not meet the budgeted figures and interest charges increased as well because of the continuous debt financing thereby having a negative relationship and failing to enhance profitability as the years passed on. This opened the doors for the researcher to carry out a study and analyse the impact of debt finance on financial performance of City of Mutare.

1.3 STATEMENT OF THE PROBLEM

Continuous debt financing is experienced at City of Mutare thereby resulting in financial performance diminishing as time passed by. As a way of improving revenue generated from water services, City of Mutare acquired the continuous debt finance with the aim of financing the water project so as to improve the water services, as a way of luring residents to pay water charges, thus increasing revenue generation and improving financial performance. Despite acquiring debt finance to boost their operations, interest expenses also increased thus there is no satisfying or remarkable relationship established between debt finance and profitability thus the drive behind this research, which will analyse the impact of debt finance on profitability of this local authority.

1.4 MAIN RESEARCH QUESTION

What is the significance of debt finance on financial performance of local authorities?

1.5 RESEARCH OBJECTIVES

- i) To determine the effects of poor debt financing to adversely affecting financial performance.
- ii) To determine how debt financing used by City of Mutare enhances profitability.
- iii) To determine challenges faced by debt financing at City of Mutare to improve financial performance.
- iv) To determine the relationship between debt financing and financial performance.

1.6 RESEARCH QUESTIONS AND HYPOTHESIS

- i) What are the effects of poor debt financing that adversely affect financial performance?
- ii) How does debt financing enhance financial performance?
- iii) What are the challenges faced by debt financing at City of Mutare in improving financial performance?
- iv) What is the relationship between debt financing and financial performance?

Hypothesis

Ho debt finance is significantly related to financial performance.

H1 debt finance is significantly and negatively related to ROA

1.7 DELIMITATIONS

The research is going to cover the operations of City of Mutare from 2014 to 2016. The organisation has CSD offices in every district, however the research will focus on the headquarters which are located at the Civic Centre in Mutare, with the major focus being on

people in accounting, water and debt sections under the finance department. The focus of the study will be to determine the impact of debt finance on the financial performance of City of Mutare.

1.8 LIMITATIONS

Some information is said to be confidential and sensitive to the firm and is made unavailable due to reluctance by respondents in giving out information of relevance to the researcher. However, the researcher curbed the problem through the reliance on external sources like scholarly articles and newspapers.

1.9 RESEARCH ASSUMPTIONS

Respondents used in this study are experts in finance and accounting therefore they will give accounting knowledge of relevance in carrying out this study effectively. There is enough time to complete the study as the researcher has enough time at disposal. The researcher assumed that the debt finance at the company will not change until completion of the study.

1.10 DEFINITION OF KEY TERMS

- ***Debt finance***-Borrowed money to operate a business and repayment to be at a future date with interest (Wachira 2014).
- ***Financial performance***-Result measurement of a firm's policies and operations in monetary terms over a time span (Shar and Jan 2014)
- ***Debt Ratio***-Financial ratio that measures the extend of a company's leverage. Total debt to total assets ratio (Xu et al 2016).
- ***Financial leverage***-The extent to which a company uses income securities. It is when the capital structure of a company contains debt finance. More debt financing the higher its financial leverage (Acheampong et al 2014).

- **ROA**-Return ON Assets (Measure of profitability).

1.11 SUMMARY

This chapter gave an insight of the study and looked at the activities at City of Mutare. This chapter gave the need to analyse the impact of debt finance on organisation's financial performance. The next chapter will discuss the literature review of the research problem.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

A literature review is of importance because it gives a demonstration of the state of learning in the under studied area. In this chapter, information concerning debt finance and financial performance from different scholars was discussed. Arguments from different scholars concerning the issue under study were largely symptomized and discussed and helped the researcher with pivotal points to consider about debt finance and financial performance.

2.1 EFFECTS OF POOR DEBT FINANCING THAT ADVERSELY AFFECT PROFITABILITY.

2.1.1 HIGH FINANCE COSTS

Wachira (2014) and Modi (2014) are of the notion that poor debt financing can result in unfavorable profits, as continuous debt financing involves a high interest burden, thereby increasing the interest expense of the organisation thus understating profits. High interest burden also increase due to the poor debt financing(continuous borrowing) whereby current interest charges would add up with the accrued interest charges from the previous debt, thereby increasing interest expense and negatively having an effect on profits Fang (2016) and Aliakbar et al(2013).The view of Ramadan et al (2015) and Maina and Ishmal (2018) is that poor debt financing can lead to high agency costs which can lead to diminishing and poor profits because of increasing agency costs resulting from the conflicts between lenders and shareholders,

increasing the costs of capital. These agency costs exist due to the separation of control which can adversely affect profitability thus according to Nazir and Saita (2013). Trade off theory also points out the financial costs associated with debt as stipulated by Obamuyi et al(2013).

On the other hand, Omai et al, (2018)and Wamugo (2014) are of the same view that interest costs do not adversely affect financial performance because interest costs are a benefit as they are tax deductible thereby benefiting as the firm would not be tax burden.Enekwe (2014) is of the notion that poor debt financing thus continuous and high borrowing ,cannot yield high finance costs if increased with a low interest rate. According to Akbarian (2013) high interest rates may vary because of the history with the banks which may charge high interest charges as their policy not because of poor debt finance but because of their culture thus increasing interest charges. Niko and Farokh (2015) are of the notion that poor debt financing causes high interest and agency costs such that profits /surplus diminish whereas to some extend researchers argued that poor debt finance is not to blame for the high interest and agency costs. Therefore, this study is going to analyse if poor debt financing can adversely affect the profitability of City of Mutare through high interests and agency costs.

2.1.2 FINANCIAL RISK AND FINANCIAL DISTRESS

As debt level in capital structure increases this also increases the cost of financial distress. Alocock et al (2013) points out that financial distress is a situation when a firm is not able to honor its obligations. According to a hotel study, it was found that financial risk is positively correlated to poor financial leverage, Guranathna (2016). According to Zheng (2013) it was noted that financial risk increases with continuous use of borrowed funds thus poor debt financing, thereby adversely affecting profitability.

Alocock et al (2013) further established that high leverage yields high financial risk which adversely affect financial profitability as it can result in an increase in interest costs through the accrued interest charges and the current charges. Furthermore, Fang (2016) pointed out that heavy debt increases interest costs and burden and moreover increases the probability of failure to repay thus increasing the financial risk thereby adversely affecting profitability and financial performance.

Similarly, Hackbarth et al(2013) found a strong positive relationship between financial risk and high leverage. Muigai et al, (2016) is of the notion that when debt increase, the concerned firms are exposed to high liquidity levels of risk due to the fact that failure to service debts may lead to bankruptcy. Zhang (2013) is of the notion that lenders will claim repayment, even during business failure, which is risky

However, financial risk was found to be negatively related to debt financing. Muchlis et al,(2013) in their examination of the effect of financial or credit risk on capital structure ,found out that a negative relationship existed in their study of 20 banks. Rehman et al (2013) found out that poor financial leverage and financial risk have no relationship at all as the risk is mainly management's concern not the fault of poor debt financing hence profitability will not be affected adversely..

On the other hand, Nirajini and Priya(2013) highlighted that there is stifling of growth is because of the organisation having debt beyond a certain limit/level, thereby being highly leveraged, resulting in stifling growth because of the sole obligation by the organisation of repaying the debt than innovating This research will establish if continued and high borrowing in City of Mutare has caused financial risk hence adversely affecting profit.

2.1.3 CASH FLOW PROBLEMS

Goyal (2013) noted that the use of debt reduces the free cash flow available to managers, as obligations of interest payments to debt holders decrease free cash flow available for investment. Decrease in free cash flow yields overinvestment problem whereby managers will invest in many projects even if they do not benefit shareholders. Farhad, and Aliasghar(2013), Chechet, and Olayiwola (2014) and Ghazouani, (2013) are also the notion that poor debt financing can lead to cash flow problems which results in adverse variance. Zheng (2013) pointed out that cash flow problems are as a result of regular payments for the debt payments whereas cash is ejected from the organisation or from the bank balance which results in the understatement of the working capital thus the funds to manage the day to day operations thus affecting the financial positions and day to day operations which may affect profitability as well. Damoun et al (2013) and Guranathna (2016) viewed that cash flow problems may lead to inability to create a safety net of cash savings to cover unexpected and immediate costs of doing business. Ghazouani (2013) viewed that cash flow problems increase the probability of bankruptcy and puts the liquidity of the business in danger.

However, Ikapel and Kajirwa (2017) are of the opinion that cash flow problems are not as a result of poor debt financing as it can be due to macro-economic conditions whereas there will be cash shortages in the country or high inflation rates. Haque(2014) and Imtiaz, et al (2016) are of the view that cash flow problems are as a result of inadequate cash revenue whereas the business will be having too many debtors. Furthermore, Muchlis et al (2013) added that cash-flow problems may not be experienced if there is proper and good debt financing

The research is going to analyse if cash flow problems and bankruptcy adversely affected the profitability and financial position of City of Mutare as a result of poor debt financing.

2.1.4 POOR DEBT MANAGERIAL DECISIONS

Serghiescu and Vaidean (2013) said that effective and wise debt financing provides management with necessary information on how to effectively use the debt for profit maximization in emergency crisis which need funding, hence if there is poor debt financing can be influenced to make poor decisions in the purposes of the debt which can adversely affect the firm's profitability. Poor debt financing helps the management in deciding on poor debt structuring practices which include the debt service pattern, average maturity which helps on how to keep an optimal debt ratio so as to maximize profits, Chen (2013), Alzomai (2014) and Antonczyk, and Salzmann (2014). As noted by Foster and Young (2013), poor debt financing influences managers in making decisions which cannot maximize profits through the use of poor debt derivatives and management can set a poor debt limit. According to Karasic (2014) poor debt finance results in overinvestment problems whereby managers would invest in projects for their self-centered interests even if the project is not beneficial.

On contrary, Baltaci, and Ayaydin (2014), Bassey et al, (2014) were of the argument that poor debt managerial decisions are as a result of inadequate managerial skills and creditor's influence not because of poor debt financing. Managerial decisions are largely influenced by preferences as well as risk taking, Dang (2013), Jõeveer (2013). Also, creditors and other external forces may influence the debt managerial decisions so as to protect their debt investment and as a collateral of repayments therefore it is not fair to say that poor debt financing influences poor debt managerial decisions, Dernaj (2014). Shareholding may influence managerial decisions as they have control over the strategic decisions. Therefore, this study is going to determine whether poor debt managerial decisions affect profitability as a result of poor debt financing.

2.2 HOW DEBT FINANCE ENHANCES FINANCIAL PERFORMANCE

2.2.1 COST REDUCTION AND TAX SAVINGS

Li et al (2016) emphasized that debt financing optimizes and reduces the concentration of ownership properly, thus lowers organisation's debt finance cost thereby reducing finance costs and enhancing profitability. According to Jahanzeb et al (2013) finance cost reduction through debt financing optimizes the structure of management and ownership thus the Board of Directors and shareholders thereby encouraging easy administration which require no complex and extensive reporting requirements resulting in the organisation cutting debt finance costs associated with the complex debt management administration. Debt financing brings down the averaging costs mixed in the capital structure, Khalaf Al Tan (2013).Khalaf Al Tan (2014) supported the view that debt financing encourages the return of debt principle at maturity therefore it is less expensive as the debt repayment is spread over thus reducing the emergency payment and proving to be cheap.

LaRocca et al (2013) further say that there are tax savings due to allowable interest deductions.Liao et al (2016) noted that there is lower taxable income as the tax rule allows interest payments as expense deductions against revenue.According to Rouf et al (2015), lower taxable income results in low tax paid therefore tax savings reduce debt financing costs thus enhancing profitability. Effective debt financing will result in a reduction of finance costs which reduces the expenses thus maximizing profits.

However, Lyandres (2013) viewed that debt financing can also increase costs through the interest charges which are charged as a way of repaying the debt. The interest charges are an obligation of the organisation to pay thereby signifying the cost of the debt, as of the notion of Muchlis

(2013.). Furthermore, Mutenheri, and Munangagwa, (2015) say that if the debt is high it will result in high interest charges thus overestimating expenses and reducing the profits. The research will then review the impact of debt finance in the reduction of financing costs so as to enhance profitability.

2.2.2 PROFIT RETENTION

Olayiwola, and Chechet (2014)and Sheriff and Elasyed (2013)emphasized that debt financing helps the organisation in retaining profits due to the availability of pressure to meet interest-payment obligations encouraging the company to retain more profits as compared to equity, where profits are shared. Through debt financing ,companies retain more profits to themselves whether they increase or not because interest paid out of the profits is fixed and retained profits will help fund other day to day operations Saeed et al (2013).Furthermore, Panda (2014) andRonoh (2015) noted that retained profits can be ploughed back in the company so as to improve operations of the business which may yield improved financial performance because retained profits are not shared unlike equity where more profits is equal to more dividends.Rezaeiand Azad (2014) highlighted that there is limited obligation on the debt finance as the obligation will come to an end and the profits will then be paid to the organisation only without worrying about the debt.

However, Saurabh, and Sharma (2015) argue that companies may record losses as a result of debt financing and being unable to retain profits. Debt financing involves operating under debt therefore business be highly leveraged which can chase away investors therefore the business not growing and interest charges may decrease profits to losses, Siddik et al (2017). According to Wahab,and Ramli (2014) profits may not be able to be retained as they will be covering the debt, which may lead to the organisation operating at break even. The optimization of debt finance is

maintained by the heads of the finance department. The research thereby aims at establishing the impact of debt finance in surplus retention at City of Mutare

2.2.3 BETTER PLANNING AND FORECASTING

According to Ijirshar et al (2016) debt financing is of high importance in future planning as there is easier planning and there are easy and better plans for debt servicing. Chongo (2013) noted that debt financing helps the organisation to know in advance exactly how much principal and interest will be paid monthly thereby making it easier for management to make financial plans. Chinaemerem and Anayochukwu (2013) and Addaney et al (2016) stated that debt financing enhances profitability by helping an organisation and management on financial plans as the finance costs do not vary in the future because they are fixed. Khasidi and Makame (2013) further noted that debt financing helps management in forecasting because the interest and principle payments do not depend on the market but rather they are fixed.

Also, debt financing helps management to retain control without the influence of the lenders therefore they can decide when to purchase and hire for operational purposes, as long as they meet the debt obligations. Debt finance helps managers with forecasting for better operational decisions which will increase the profitability of the firm through economic decision making Abanis et al (2013).

Moreover, Obuya (2017) is of the notion that debt finance helps the monitoring of managers by investors and creditors so that there is effective use of debt in order to achieve profit maximization. Charles and Peter (2015) further noted that due to stringent disclosure terms on the debt contract and creditor's rights, monitoring of management is effective thereby reducing the risk of management making self-centered decision but rather make decisions in the interest of

the company. Obuya (2017) went on to say that debt decreases the cost of monitoring because management are effective due to bank monitoring and set out principles.

However, decision making as a result of debt financing may have a negative impact on the financial plans and operational decisions of the organisation which can result in poor decisions being made which can negatively affect profitability Mumtaz et al (2013). According to Ogebe et al (2013) decision making through debt financing only focus on the interest and principle charges only and debt management and debt policies may prove costly thereby increasing the costs and affecting profitability. Furthermore, Vatavu(2015) is of the notion that decision making has to include other relevant costs so as to produce effective budgets and effective debt management policies. The research will reveal the impact of debt financing in effectiveness decisions and planning so as to come up with improved profitability (surplus) at City of Mutare.

2.2.4 EXPANSION AND REVENUE INCREASE

According to Lemma and Negash (2013), there is the emphasizes that debt capital can have a positive effect on profitability as effective debt financing allows companies to leverage existing funds to rapid expansion and innovation. Wahab and Ramli (2014) and Ghazouani (2013) are of the view that a significant positive relationship between debt finance and firm growth exist resulting in an increase in revenue generation which will increase and exceed the expense of interest payments thereby enhancing profitability. An example is that long term debt of parastatals yields an increase in sale and revenue generation. Hecht (2016) noted that control of spending extra capital is up to the business enhancing business to finance other expansion operation as debt finance does not dilute or include sharing of extra capital.

Hecht (2016) further explain that debt finance is easy to access for start -ups and start-up projects and it is straight forward depending on the needed money.Tom (2017) also emphasized that start -ups turn to debt financing for their growth.Kokemullar (2018) and Chevalie (2014) are of the same view that effective debt finance can aid in start-ups and expansion which improves the revenue generation which increases profits because through debt financing, businesses can have funds to pay for new buildings, assets and other equipment before earning necessary funds. If financing is limited, expansion, growth and expansion will be limited as well thus the need for debt financing to achieve growth and enhance profitability Githiaga and Kabiru (2016). Empirical results by Acaravci (2013), Wahab and Ramli (2014) and Ghazouani (2013)revealed the existence of a strong positive relationship between debt finance and firm growth because firms with high growth opportunities prefer debt financing.

Expansion can also be through diversification whereby services and products can be diversified thereby needed the issue of debt finance to fund the expansion Manrai et al (2014).Rezai and Azed (2014) andDavid et al, (2014) conducted a hypothesis test where they studied that expansion is achieved through diversification which increases revenue, thus finding a positive connection between leverage and product diversification.

However, Malik and Hayat et al (2015) are of the notion that overuse of debt can limit growth and expansion which will adversely affect profitability.Cekrezi (2013) emphasizes that if corporate growth goes beyond 90% it limits growth.Serghiescu and Vaiden (2014) and Harc (2015),in their empirical results showed a negative association between leverage and firm growth and they argued that most firms associated with growth opportunities consider value adding assets to the firm which are not subject to taxable income therefore they do not go for debt financing.Cekrezi(2013) asserts that instead of using future profits for the growth of the business,

debt payments are allocated a portion of the future proceeds, which stifles expansion and the improvement in revenue generation thus failing to enhance profitability financial performance. Therefore, the research sought to review the impact of debt financing on the expansion of services and revenue generation at City of Mutare.

2.3 THE CHALLENGES FACED BY DEBT FINANCING AT CITY OF MUTARE IN IMPROVING FINANCIAL PERFORMANCE

2.3.1 COLLATERAL

According to Rahman (2017) debt finance requires borrowers to pledge assets of the organization to the lender as collateral whereby there is risk of losing the assets thus affecting the operations of the organisations and being a challenge in improving financial performance. Lenders require collateral as security in case of failure by the organization to pay the debt, Kwaning et al (2015). Mostly, companies may fail to pay outstanding debt, leaving the lender with the choice of seizing assets pledged as collateral so as to set-off the debt thus reducing the assets of the organization thus having a challenge on the improvement of financial performance. Rios –Solis et al (2017) noted that organisations risk losing important assets through collateral which may result in the business not being able to effectively operate, as business may use collateral to pay the loan in case of cash problems. Matemilola et al (2014) most organisations put their assets as collateral security for the debt finance and operations are affected if there is default in debt payment as assets will be seized.

However, Itoo et al (2013) state that collateral only affects the firm if there is default in payments. Furthermore collateral can be avoided if the business does not depend too much from debt but rather from internal funds which do not demand an collateral but will improve

innovation, Dikova (2015). The use of internal funds over debt gives an edge on the absence of collateral security which hinders operations therefore there is no risk of losing assets as one does not have to pay it back Khanna (2014). The research sought to ascertain how debt financing is affected by collateral thus alternately affecting profitability.

2.3.2 LOW DEBT COVERAGE RATIO

According to Campello (2013), a low debt coverage ratio shows that there is no optimal keeping of the debt ratio which affects debt finance from improving profitability of an organisation. They further went on to say that low debt coverage ratio means there is not enough funds to cover the debt. Debt Service Coverage Ratio measures the available cash flow to pay current debt obligations, Campello (2013). Top management can effectively fail to maintain debt coverage ratio as they will be more concerned with the revenue and repayment of the debt. Obuya (2016) is of the view that a debt coverage ratio is the ratio of the company's net operating income to its debt payment. Rasoolpur (2014) emphasizes that a low debt coverage ratio, number less than 1, is a sign of a negative cash flow which means that the company has twice as much as debt payments as it does to net operating income. Daniela et al (2014) is of the notion that debt payments will be paid more as compared to the net operating income, signifying that the organization will be operating below break –even thereby showing that the debt coverage ratio affects the debt financing in improving profitability. According to Atieh (2014), organisations tend to focus on the obligation of the debt and ignore the gross profit generated from the debt finance, whereas a low debt coverage ratio will result in failure to break-even through the payment of more debt to income thereby adversely affecting profit enhancement.

However, Seetheraman et al (2017) viewed that organisations have to keep a high debt coverage ratio in order to have a positive cash flow and low risk because enough funds to cover the debt

will be available, which can result in enhancement of profitability can be achieved. Anwar (2017) further emphasized that high debt coverage ratio results in an organisation having as much net operating income to its debt payment signifying an operation above break even and a positive ROA. Anwar (2017) went on to say that lenders may require a high coverage ratio of like 2,25 whereby the \$2 is the debt and the 0,25 (25%) is the cash flow. Alamgir (2015) emphasize that a high debt coverage ratio of 2 and above signifies a positive cash flow available to pay the current obligations, which in turn helps in enhancing profits of the organisation. Therefore, the research seeks to ascertain how debt financing is affected by a low debt coverage ratio negatively influencing profitability.

2.3.3 LIMITED FLEXIBILITY AND LOW CREDIT RATING

According to Chong et al, (2015) credit rating plays a pivotal role as a screening device for the lender on whether to lend debt finance or not. Dorga (2016) and Arraiz et al (2014) noted that credit rating is pivotal thus organisations with low credit rating are exposed to the risk of not having access to future borrowing of funds due to the lender having no faith in them, thereby, limiting flexibility to debt finance which can be needed to fund day to day operations and for project expansion hence a challenge to improve the profitability of a firm.

Bar -Isaac and Shapiro (2013), Kajirwa (2014) and Muchiri et al (2014) noted that when a firm is in need of money, the ongoing borrowing seems attractive but every loan is noted on the credit report and it negatively affects the credit rating thereby limiting profitability and being a challenge to future debt finance. Jeon and Lovo (2013) and Naiseku and Susan (2016) are of the notion that the more the firm borrows, the lender will develop high risk resulting in him charging a high interest on each loan. This high borrowing increases risk prior to default and recovery

rates which will be associated with a lot of debt which will result in loss of creditors due to adverse credit rating Samuel et al (2017).

Arraiz et al (2014), too much borrowing increases leverage of the firm thereby limiting flexibility and loss of creditors as they fear the possibility of the borrower in failing to pay the debt, resulting in loss lenders and future debt finance which can result in inadequate funding for expansion which limits the improvement of profitability. Arraiz et al (2014) further stipulate that credit rating guarantees easy access to more debt finance

However, Modi, (2014) asserts that limited flexibility due to high leverage is not really a challenge if the debt finance is maintained at an optimal ratio thus progressing in profit maximization. Mahmoudzadeh and Seyfi, (2017) also support the view that high leveraged have a competitive market thus enhancement in financial performance although there will be limited flexibility to future debt financing. The research will ascertain how limited flexibility and low credit rating affects access to future debt for the improvement of financial performance.

2.3.4 LACK OF KNOWLEDGE ON DEBT MAINTANENCE

According to Kraft (2014) inadequate or lack of knowledge and expertise concerning debt finance maintenance techniques prohibit coverage of overhead and monthly labor costs as management will be paying debt payments. Kraft (2015) further emphasize that lack of knowledge leaves other overheads unattended as it becomes difficult cater for repayments as well as overheads thereby leaving a gap in effective and efficient debt finance maintenance resulting in failure to maintain an optimal debt ratio thus negatively enhancing profitability. Bhandari et al (2017) noted that lack of knowledge on debt finance management systems pushes

for the missing of payments which results in business in incurring late fees and hurting the business credit hence a reduction in profitability enhancement.

Furthermore, Bhandari et al (2017) went on to note that there is need for professional improvement of personnel through seminars or educational courses so as to overcome the challenge of inadequate knowledge so that debt finance management can be effective and optimal to improve profitability of the organisation. Inadequate knowledge of debt financing management has led to wrong maintenance of optimal debt ratios that maximize profits hence making it a hard to improve profitability. Adam (2014) is of the notion that inadequate knowledge on optimal debt finance maintenance has led to the vulnerability of the organisation as sales decline and it becomes difficult to cover for overhead costs and the inability to evaluate the financial performance from using debt ratios.

However, Cheong (2015) is of the view that inadequate knowledge is not a challenge faced by debt finance but rather the firm does not inject an increase in knowledge to employees on debt finance optimization in order to enhance profitability. Furthermore, Chatterjee (2017) is of the notion that maintaining an optimal debt finance requires specialization of labor and segregation of duties and this will be stated in the job description, therefore employees will directly know what needs to be done in a bid to maintain an optimal debt ratio and to avoid vulnerability. The research seeks to examine the knowledge of staff at City of Mutare regarding optimal debt finance maintenance in a bid to improve financial performance.

2.4 THE RELATIONSHIP BETWEEN DEBT FINANCE AND FINANCIAL PERFORMANCE

The impact of financial leverage has mixed results which are reported and concluded by different researchers. Quite an extensive number of researchers have conducted studies to determine the impact and the relationship between debt finance and financial performance. It was pointed out that there is a positive relationship. Despite other scholars agreeing on the positivity, Wachira, (2014) agree that a negative relationship exist. The study has been conducted by separating debt finance into long term and short term to examine the relationship on financial performance as measured by profitability, ROA, ROE among other factors. In this study, the researcher will determine the relationship on both long term and short term and total debt and tangibility, as an independent variable and financial performance will be measured by ROA and Profitability.

2.4.1 LONG TERM DEBT AND FINANCIAL PERFORMANCE

Ahmad et al. (2012), on examining the impact of capital structure on financial performance of Malaysian sugar firms, came up with the notion that there is a negative relationship between long term debt and financial performance arguing that the more the borrowing, the more their financial performance deteriorate. Furthermore, Ikapel and Kajirwa (2017) in their empirical research in Kenya suggested that long term debt had a negative impact on financial performance as measured by Return on Assets. According to Habib (2016) long term debt is a way of increasing investment but it records a negative ROA employed thus signifying the negative relationship between long term debt and financial performance.

Moreover, after a study of listed New Zealand countries, it was concluded that long term debt can increase sales of an organisation but it is negatively related to the return on assets, Mesquita

and Lara (2013).Javed et al. (2015) found out that total debt and long-term debt negatively relate to ROA because firms borrow less and maintain adequate funds generated internally. Pecking order theory supports the negative relationship as it is of the notion that firms with high profitability are associated with low debt thereby signifying the negative relationship.

However, using simple regression some scholars are of the view that long term debt enhances an increase in sale thus having a positive relationship on sale growth, although they can be decreased by ROA Kebewar (2013).Anandasayanan (2013) also had a view that long term debt had a positive relationship with sales growth as it increases sales, after analyzing listed companies in Sri Lanka.Furthermore,long term debts helps increase capacity of project with long payback period, hence positively relating to return on assets in the long run optimal debt ratio Acikgoz (2013).Some scholars found that there is weak and no significant relationship between long term debt and financial performance which does not impact the ROA or firm's overall performance. This research seeks to determine the relationship between long term debt and financial performance as this has not been concluded by previous researches on whether there is a positive relationship or a negative relationship.

2.4.2 SHORT TERM DEBT AND FINANCIAL PERFORMANCE

According to Miras (2015) in analyzing effect of financial structure on the financial performance of firms, pointed out that a strong positive relationship existed between short term debt financing and the firms'ROI, liquidity and ROA.Kirmi (2017) and Lemma and Negash (2013) were of the notion that short-term loans help firms to meet the current and immediate financial needs and low financial cost thus promoting growth and profitability hence is a positive relationship.According to Wachira, (2014), there is a positive relationship between short-term debt and firm's growth opportunities, profitability and the overall financial performance.

Adesina and Inwidiobe, (2015) after conducting an empirical study in Nigeria on the impact of debt finance on financial performance of listed banks found that there is a positive relationship between debt and profitability. Firms wnmhich have reliance on short-term debt are likely to become more profitable. The above literature show that short-term debt has a positive relationship with financial performance.

However,Alocock et al (2013),Modi (2014) and Zheng (2013) noted that short term debt has a significantly negative relationship with the financial performance as they argued that firms associated with short term debt are mostly associated with current obligations which negatively impact the ROA.Osuji and Oditia (2014) who studied and sought to establish the relationship between level of debt and financial performance of Egyptian listed companies was of the notion that there was a negative impact of short term debt on financial performance as firms with more short term debt are prone to liquidity problems as the current liabilities increase thus having an effect on working capital. The inverse relationship between short term debt and profitability is established because short term maturity is used as a means of lowering liquidity thus lowering profitability, Osuji and Oditia (2014). Malik and Hayat et al (2015) and Cekrezi (2013) argued that increase in short term debt finance is related to a downward movement in firm profitability and their conclusion is that a significant negative relationship exists.

From the above studies, mixed conclusions on relationships were highlighted therefore this research will focus on the relationship between short-term debt finance and profitability in local authorities.

2.4.3 DEBT FINANCE AND TANGIBILITY

According to Harc (2015) there is a positive relationship between long-term debt and tangibility because firms associated with long-term debt have to pledge collateral. Chepkemoic (2013) went on to say that there is a significant relationship because tangibility makes it easy to collateralize and value loss when there is distress is low. Moreover, this is because firms who go for long-term liability have the collateral thereby are in a position to acquire long term debt finance.

Wahab and Ramli, (2014) agree that tangibility is positively correlated to financial leverage basing studies they conducted in their respective countries. Gharaibeh, (2015) did a study in Kuwait on listed companies which revealed a significant positive relationship between debt finance and tangibility through the measurement of the total debt to total assets ratio. Siddick (2017) argued that assets possessed by the company have an effect on its capital structure choices thus a positive relationship between financial leverage and tangibility is predicted. Firms with more tangible assets are given first preference to long term loans as they have the guarantee of better collateral., thus signifying the positive relationship between tangibility and debt finance.

However, Cheche et al (2013) noted that tangibility and debt finance are negatively related. Cheche et al (2013) went on to say that tangibility is negatively related to short-term debt as compared to long term debt. According to Wang et al, (2017) firms with less tangible assets go for short -term debt as they have little or no collateral. It is indicated that in developing countries, the tangibility of company assets is negatively correlated with its debt ratio and the suggestion was that a high level of tangible fixed assets does not permanently guarantee creditors in case of borrower's default Kwaning et al (2015). The relationship between debt finance and tangibility

could not reach a conclusion therefore this research will determine the relationship between tangibility and debt finance.

2.4.4 TOTAL DEBT FINANCE AND PROFITABILITY

Explaining role of debt in firms' profitability is one of the primary objectives studied by researchers, Raza (2013). According Nijenhuis (2013), Hossain et al (2015) and Harrelimana (2017) an increase in debt increases the leverage of the company and firms with high profitability are associated with debt finance. During normal and boom times, exponential profits returns are signified. Hansen (2013) illustrated that there is an advantage to debt financing which include the tax benefit of debt and that there is a cost of financing with debt. Xu et al (2014) suggested that companies with higher profitability ratios borrow more and thus a positive relationship because it is highly probable that they enjoy debt tax shield. The empirical results from Manrai et al (2014); established that a positive relationship exists between the profitability and the capital structure of an organization. Furthermore, David et al (2013), high profitability yields high debt as the organisation will be in apposition to attract loan suppliers and to diversify. Moreover, an increase in debt finance is positively related to ROE in boom times.

However, Choi (2014) in their studies suggested that firms prefer internal financing as compared to external financing thus signifying a negative association between profitability and debt financing. Serghiescu and Vaidean, (2014), in their study, revealed that the profitability was negatively correlated to the capital structure. The negative relationship between debt finance and profitability are strengthened by Abbas et al (2013) as they noted that firms with high degree of profitability use the internally generated funds for investment rather than using debt finance. Moreover, according to Al -Taani and Khalaf (2013) during recessions in economy, debt finance hurts the Return On Equity thus signifying a negative relationship between debt finance

and profitability. Abdel-Jalil and Towfiq (2014) The above literature review failed to reach the conclusion if debt has a positive or negative relationship with profitability as measured by the return on equity. The study will focus on the relationship between debt financed and profitability with return on equity as the measure.

2.5 SUMMARY

The chapter brought together various literatures on the impact of debt financing on profitability of an organization. The researcher assessed effects of poor debt financing, how debt finance used by City of Mutare enhance profitability, challenges faced by debt financing to improve financial performance and the relationship between debt finance and profitability. This helped the researcher on what exactly to critically study on within City of Mutare. The next chapter is going to discuss on the research methodology to be used by the researcher.

CHAPTER THREE

RESEARCH METHODOLOGIES

3.0 Introduction

In this chapter, the research methods that will be used by the researcher in data gathering, presentation and analyzing will be revealed. Research design, research instrument, target population and population census to be used by the researcher in executing the study will be clearly shown.

3.1 Research Approach

Research approach is defined as a plan or proposal to conduct research and involves the intersection of philosophy, specific methods and research designs (Creswell ,2014). Both qualitative and quantitative research methods are research approaches which will be used by the researcher in carrying out this study. Qualitative research explores and find the meaning that individuals reckon to a human or social problem. Qualitative research helps in gaining a better accurate perception in opinions and reasons about a research problem, thereby being an assistant to the researcher in the understanding of the motives behind the debt finance at City of Mutare and the impact on financial performance. According to Bengtsson and Fynbo (2017), qualitative research helps researchers tonaturally gather information and knowing the reasons for something to be done, reasons behind adopting the debt finance, and the parties responsible with adopting the debt finance.

On contrary, quantitative approach tests the objective through the observation of figures theandexamination among variables.Rovai et al(2014) viewed that quantitative research

ishelpful through the establishment of existing relationship between variables thereby showing the effect and cause of the relationship, hence being of help to the researcher in the understanding of the cause and effect of the relationship between debt finance and financial performance(profitability) as measured by ROA.

Use of the mixed approach is value addition to this research due to the fact that study findings will appeal to audience of wider range because of the use of both words and numbers in transmitting the results of the findings Al Malki(2016). Use of the mixed approach is essential to the researcher because the statement of the problem involves a quantitative aspect through examining debt finance structure and surplus(profits) margins and the qualitative aspect in assessing in the impact of debt finance. Mixed approach enabled the researcher to fully understand the research problem than when using a single approach.

3.2 Research design

According to Haiying (2014) the research design are the advance decisions agreed which in turn create the main strategy. It is the overall strategy which assist in the addressing of the research questions adequately through the formation of different components of the research into a more aesthetically ordered and reasonable manner (Haiying,2014). A good research design should be of relevance and quality to the study through the effective analyses of variables defined in the research. A research design is a framework which is of assistance in answering research questions, Haiying (2014).

3.2.1 Descriptive research design

The researcher used descriptive research design in order to reach the goals of the study which are to analyse the impact of debt finance on the financial performance of City of

Mutare. Alshenqeeti (2014) defined descriptive research as determined with information with the aim of identifying the situation, problem or attitudes towards an issue that exists at a defined time. Descriptive research therefore enabled the effective description of opinions and perceptions of City of Mutare staff towards the impact of debt finance on financial performance.

Alshenqeeti (2014) viewed that descriptive research enables the researcher to have a description of what is in existence in the area under study which is of help in the establishment of new facts and meanings towards the research questions, thereby yielding the carrying out of a more relevant research. Descriptive research enabled the researcher to gather sufficient information on why profitability of City of Mutare declined despite adopting debt finance. Visual aids such as graphs and pie chart are enabled by descriptive research to inject more understanding to the target audience, Kumar (2014). Descriptive research design enabled the researcher to present gathered data diagrammatically.

3.3 Target Population

A target population as a sample of pivotal individuals who are of focus in the research. A target population is a combination of different elements where the research samples are derived from.

The target population in this research consists of only 19 employees from the three sections under the finance department within the organisation which include the accounting, water and the expenditure section. For study purposes, the 19 employees were derived from the finance team as the researcher deemed them to be knowledgeable as far as decisions to debt financing of the organisation are concerned. As of the reason that the population is of 19 employees, census will not be conducted on a sample basis because the population is manageable in terms of finance resources and time. In conducting a census, every population member is included which

enhances the statistical confidence and reduces the questioning of accuracy on survey results thus boosting the researcher's confidence on true population parameters reflection as compared to a sample which reduces the statistical confidence. A census enables the intensive study to the researcher concerning the research problem thus gathering more information and knowledge and a clear clarity on the satisfaction of the department concerning the debt finance. Below is Table 3.1 showing the target population, number of questionnaires and conducted interviews.

Table 3.1 Population Census

PARTICIPANTS	Managers	Water Personnel	Accounting Personnel	Expenditure Personnel	Total
Population Size	3	5	6	5	19
Questionnaire	3	5	6	5	19
Interview	1	1	1	1	4

The table 3.1 above is an illustration of 19 employees. From the above table nearly, all sections were represented by at least 70% of the employees. Researcher carried out 4 interviews and issued 19 questionnaires.

3.4 Data Sources

Data was collected by the way of primary data, which was collected through the interviews and questionnaires.

3.4.1 Primary Data

Primary data was used by the researcher, which was collected for the first time by the researcher and is not found in other sources. The primary data is specifically collected for analyzing the impact of debt finance on the financial performance of City of Mutare. The collection of raw data helped in the comparison and evaluation of thoughts of various individuals in studying City of Mutare. Primary data enabled the collection of firsthand information which is of relevant to the research problem thereby adequately giving information which addressed the research problem. Primary data is original data collected and solved the prevailing problem under study.

The researcher chose primary data because it is current and suits the intend of the researcher on the impact of debt finance on financial performance. Primary data benefited the researcher through its flexibility as a result of the various ways of collecting it which includes interviews and questionnaires. Primary data enabled the researcher to gather new information concerning the impact of debt finance on local authorities.

3.5 Research Instruments

Research instruments are tools and strategies that enables the investigation under study. According to Tsalapatas et al (2014) they are implemented in order to obtain data from a research topic. Research instruments are pivotal in the reliability and relevance of the research. The researcher used questionnaires and interviews. These instruments helped in the gathering of information which was not available on the internet and helped the researcher in evaluating different responses provided by the target population regarding the impact of debt finance on financial performance of City of Mutare.

3.5.1 Questionnaire

Farrel (2016) is of the notion that a questionnaire is pivotal to the research, which is a data collection instrument documented with questions for obtaining data from the participants. The researcher gave out self-administered questionnaires to the participants so as to obtain relevant information to the study. Haiying (2014) stated that an effective and good questionnaire enables the researcher to obtain data from an enormous group of individuals within a short period and should be cost effective. This means that the questionnaire helped the researcher to be effective and time conscious in gathering data. All respondents were asked the same questions from the questionnaire thereby testing reliability of data.

The researcher used both open ended and closed ended questions in designing the questionnaire. Farrel (2016) is of the notion that open-ended questions give freedom to the respondent to express themselves in the absence of researcher influence as they require to give more thoughts and freedom to give a free roam answer, hence adding reliability to the study. This was supported by Heyvaert et al (2013) who were of the view that open minded questions eliminate bias in gathering data as there is no possible answers suggested but require more thought from the respondent thus enhancing reliability. Rahi (2017) noted that closed ended questions captures all the relevant information and can include data of statistical nature. This motivated the researcher to use closed ended questionnaires in a bid to analyze data statistically and obtain all required information thus enhancing validity to the study.

3.5.2 Interviews

Semi structured interview was carried out by the researcher whereby the researcher prepared the same list of questions which were responded by all participants and for clarification of certain

issues regarding the statement of problem, additional questions were asked. Dilshad and Latif (2013) illustrated that an interview is conducted for an agreed subject matter with a specified reason and enriches the exposure of inner feelings concerning the research.

According to Cooper and Schinder (2013) there are different forms of interviews and argued that in-depth interviews are conducted for the exchange of ideas and opinions through written, phone and face to face communication thereby the researcher had room for clarification when certain issues arise. This reduced the risk of generating irrelevant information which can challenge the reliability of the study. Cooper and Schinder (2013) noted that interview diminishes the risk of no response because the researcher personally carries out the interview and generates the required information. However, there is a risk of bias by the interviewee in giving out the response therefore the researcher avoided overreacting to responses given out by the interviewee and the interview was conducted privately so as to give comfort to the interviewee.

3.6 Reliability and Validity

3.6.1 Validity

Tsalapatas et al (2014) defined validity as the extent to which an instrument measures what it implies to measure. Haiying (2013) supported this by noting that validity is when the research instruments are sound and effective. The researcher ensured validity of the research instruments through the construction of the questions basing on the research objectives for the interview guide and questionnaires. Questionnaires were inspected by the researcher if they had errors before data presentation so as to ensure accuracy and validity of the research instruments.

3.6.2 Reliability

According to Alshenqeeti, (2014) reliability involves the consistency and error free of the information thereby yielding the generation of more relevant information. Tsalapatas et al (2014) added that reliability is the extent to which data collection methods will produce dependable and useful findings to the study. The researcher used two research instruments thus questionnaires and interviews in a bid to ensure reliability. Interviews were of assistance to the researcher in gaining more depth and insight into the generated information from the questionnaire thereby ensured dependability on data collected. The interviews were conducted on personnel from the finance department in order to enhance reliability as staff from the finance department were the ones with more information about debt financing.

The census population represented all the four sections under the finance department in City of Mutare and guaranteed that all opinions and thoughts of diverse sections were in captive, thus eliminating bias. Questions developed by the researcher were the same in both the questionnaire and interview guide and they based on the research objectives. Collected data through the research instruments was compared for similarities and differences in a bid to ensure reliability of the study.

3.7 Data presentation and analysis

3.7.1 Data Presentation

Gathered data was sorted by the researcher in categories and in accordance to the research objectives. Stimpson and Smith (2015) cited various data presentation methods and these includes graphs, tables, charts and maps. Diagrams acted as visual aids whereby they enabled a better appreciation and understanding of the gathered information and were self-

explanatory According to Verkade (2015) data is clearly understood and represented through figure panels. The researcher presented collected data with the use of tables, graphs and pie chart which was of help in the effective analyzing and interpretation of raw data. The use of visual aids made it easy in establishing and relating research findings to the problems of City of Mutare and information covered in literature review.

3.7.2 Data Analysis

Ikapel and Kajirwa (2016) noted that data analysis is of help in the evaluation of gathered information by analytically reasoning in assessing each component of given data. Responses from the participants were classified using calculated percentages and modal percentages, thereby enabling the researcher to do an effective analysis of gathered data. The study used inferential statistics (linear regression) in order to assess the relationship between debt finance and financial performance. Simple linear regression was used by the researcher using Stata 14.2 and Excel in order to reach a conclusion concerning the problems of City of Mutare. The dependent variable was financial performance and the independent variables were long term debt, short term debt, total debt and tangibility.

3.8 Chapter Summary

In this chapter the researcher revealed that he is going to be using a mix method in data gathering and presentation. Moreover, the researcher stated that information will be collected through interviews and questionnaire and that the study will be descriptive research design. Furthermore, the researcher further states the insurance that the degree of reliability and validity in collected data is high. The next chapter will discuss the yields of the research findings from the collected data.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter aimed at presenting, analyzing and interpreting research objectives which were discussed in literature review and the research findings collected through questionnaires and interviews by the researcher. Visual aids such as graphs presented the gathered information whilst qualitative information described fully and explained thoroughly as the data was both qualitative and quantitative. The researcher drew comparison of the findings to literature reviewed in chapter two of the study.

4.1 Questionnaires' Response Rate

The number of responded questionnaires out of those distributed to the target population is shown by the questionnaires' response rate. The researcher gave out 19 questionnaires to the census which is the staff of City of Mutare, which included managers, water, accounting and expenditure department. However, out of the 19 questionnaires distributed, 16 were responded to thus yielding a response rate of 84.21%. In the Table 4.1, the questionnaire response rate is illustrated.

Table 4.1: Questionnaire response rate

PARTICIPANTS	Issued Questionnaires	Questionnaires Returned	Response Rate
Managers	4	3	75%
Water Staff	4	4	100%
Accounting Staff	6	5	83.33%
Expenditure Staff	5	4	80%
TOTAL	19	16	84.21%

The above Table 4.1 illustrates that four questionnaires were sent to managers but three were responded to giving a response rate of (3/4)75%. Moreover four questionnaires were distributed to the water staff and they were all responded to thus having a response rate of 100%. Six questionnaires were given to the accounting staff (revenue section) and (5/6) 83.33% were responded to, whilst five questionnaires were given out to the expenditure staff and four were responded to giving a response rate of 80%. Overallly 16/19 questionnaires were responded to giving a response rate of 84.21% which is reliable as it covers half the population and is within the acceptable range. This is supported by Bryan (2014) who is of the notion that anything above 50% has reliable results because of the population has responded.

Questionnaire presentation and analysis

4.2 What are the effects of poor debt financing that adversely affect financial performance?

4.2.1 High Finance Costs

The researcher aimed at discovering the amount of the firm's high finance costs which had been recorded annually as a result of poor debt financing. Below is the raw data which illustrates how the sixteen respondents responded to this question.

Raw Data: Response for High Finance Costs

High Finance Costs recorded Annually	Below \$10 000.00	Between \$10 000.00 and \$20 000.00	Between \$20 001.00 and \$30 000.00	Above \$30 000
Respondents	2	3	7	4

The pie chart in Fig 4.1 below was designed using the above raw data.

Fig 4.1 Responses on high finance costs.

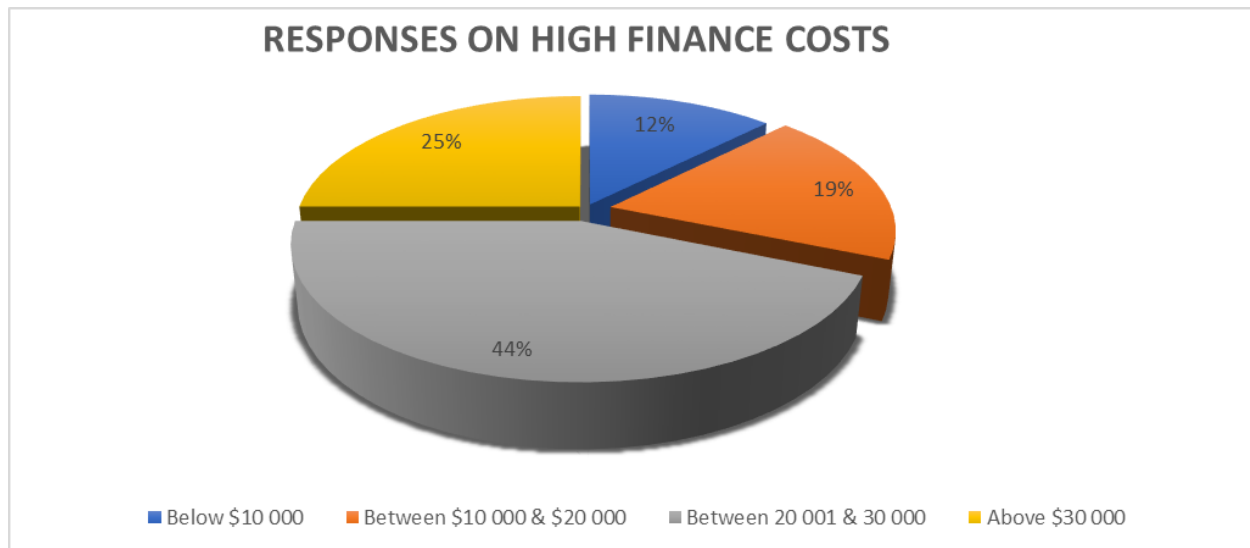


Fig 4.1 is an illustration of the various responses concerning high finance costs as a result of poor debt financing. Fig 4.1 shows that (2/16) 12% are of the notion that City of Mutare has experienced high finance costs of below \$10 000 whilst (3/16) 19% believed that the company had high finance costs which ranged between \$10 000 and \$20 000, on contrary (7/16) 44% were of the notion that the company had high finance costs which ranged from \$20 001 to \$30 000 and the remaining percentage of (4/16) 25% understood that the company recorded high finance costs above \$30 000 annually over the past 3 years (2014 to 2016) due to poor debt financing, thus continued borrowing as an example.

The aggregate of (11/16) 69% were of the agreement that City of Mutare overstated expenses through high finance costs of over \$20 000 as a result of poor debt financing, being a significant figure in the reporting of the business because gross surplus from the project financed by debt were decreasing annually due to the increase in finance costs hence adversely affecting (profitability) surplus and the Return on Assets. Finance costs at City of Mutare were being significant and affecting financial performance as a result of high and poor debt financing. This is supported by Fang (2016) and Nazir and Saita (2013) who noted that continued and poor debt financing increases the finance costs as agency costs and accrued interest charges increase.

However, (2/16) 12% were of the notion that the finance costs were below \$10 000, which is below the material aspect given the amount of debt finance City of Mutare had taken thus immaterial as far as City of Mutare is concerned and it was below their benchmark thereby it means that their view on debt finance had little effect in the high finance costs. Akbarian (2013) in support of this view argued that high finance costs vary with the history of banks who has policies of charging high interest (FBC Bank) and it is not because of the continued borrowing thus poor debt financing thus the high interest charging will increase expenses which adversely

affect profitability and the Return on Assets. Since the bank/lender may charge high interest chargers and high agency costs this increases the finance costs which can result in the company recording high finance costs with a little ratio to the revenue associated with the debt finance.

As majority of the respondents were of the agreement that over \$20 000 of finance costs was recorded, the researcher was motivated that indeed high finance costs were as a result of poor debt financing and they understated the profit figure by the amount of the high finance costs.

4.2.2 Financial risk and financial distress

The objective of the researcher is to know if financial risk and financial distress were being experienced within City of Mutare as a result of poor debt financing which would yield an adverse financial performance of the company. The belief is that high and continuous borrowing increases financial risk and financial distress. Below is the raw data showing the responses of sixteen responded concerning the question.

Raw data: Response for financial risk and financial distress

% of financial risk and financial distress	Below 20%	Between 20% and 40%	Between 41% and 60%	Above 60%
Respondents	1	3	5	7

The above raw data was instrumental in designing the column graph in Fig 4. 2 below.

Fig4.2 Response for financial distress and financial risk

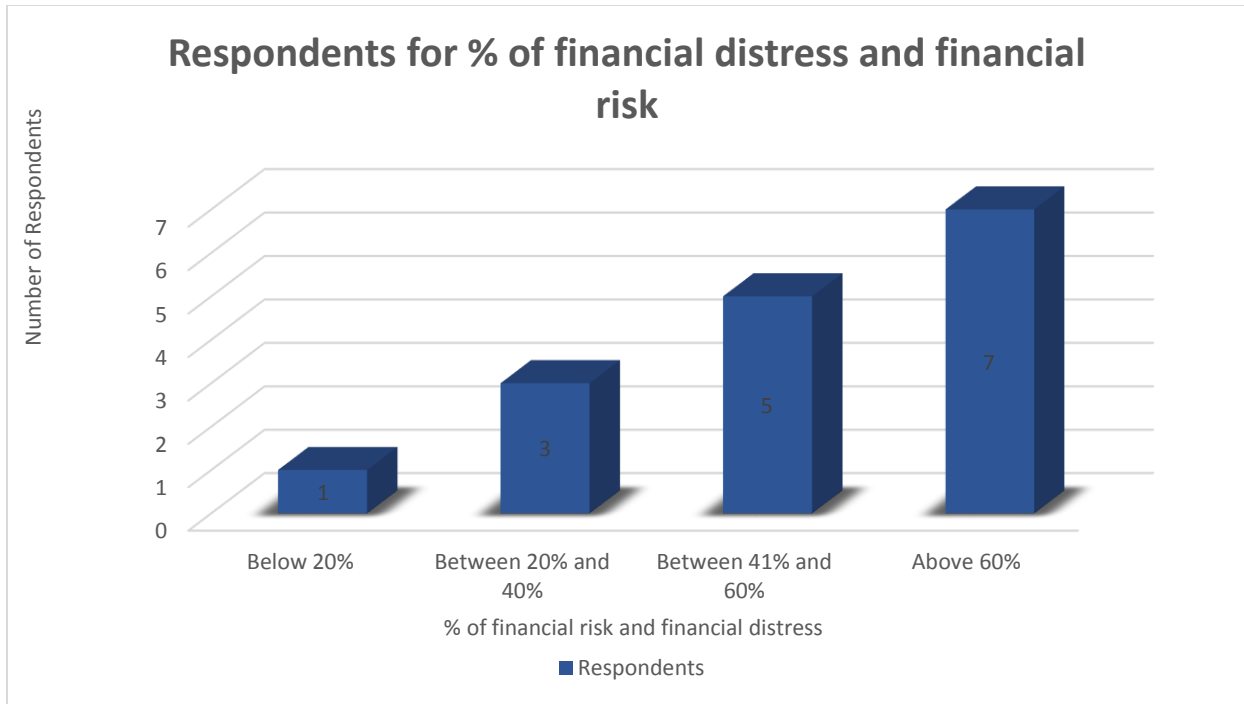


Figure 4. 2 shows that 1/16 (6.25%) was of the view that financial risk was below 20%, whereas 3/16 (18.75%) answered that financial risk and distress was in the range of 20% and 40%, moreover 5/16 (31.25%) ranked financial risk and financial distress between 41% and 60% and 7/16 (43.75%) were of the view that financial risk and financial distress was above 60% thus indicating a high leverage as a result of poor debt financing.

The aggregate of (12/16)75%, thus (5/16 between 41% and 60% plus 7/16 said above 60%) agree that poor debt financing is resulting in financial distress and risk as City of Mutare is failing to meet its debt obligation. This is because there is continued borrowing and heavy debt leading to increase in interest costs and burden and the probability of failure to pay increased. Guranathna (2016) who is of the notion that financial risk positively co-exists with debt financing thus more debt equals to more financial risk and cost of financial distress whereby a firm fails to meet its obligations. The respondents further explained that use of borrowed funds increases financial

risk and financial distress because failure to repay the debt is high due to increase in costs and burden, which are adversely affecting financial performance. This is supported by Muigai et al, (2016) and Fang (2016) who viewed that debt increase exposes the concerned firms to high probability of failing to repay the debt.

However, (4/16)25% respondents financial risk and financial distress of City of Mutare does not adversely affect its financial performance as the firm is succeeding in meeting its debt obligation despite the risk. Moreover, 3/4 respondents further explained that financial risk and distress does not adversely affect profitability but rather the financial risk is management's mainly concern and the way financial risk is poorly managed is the key to adversely affecting financial performance. Furthermore, managers should be risk takers therefore management should be able to meet the obligation and reduce risk. This is supported by Rehman et al, (2013) who noted that poor financial leverage is not the cause of financial risk as the risk is mainly the concern of management.

Since most of the respondents were of the notion that financial risk and financial distress adversely affect profitability, the researcher was motivated that financial risk and financial distress adversely affects the financial performance of City of Mutare because the company has heavy debt and an increase in interest costs and burden was experienced thereby increasing the probability of failing to pay the debt.

4.2.3 Cash flow problems

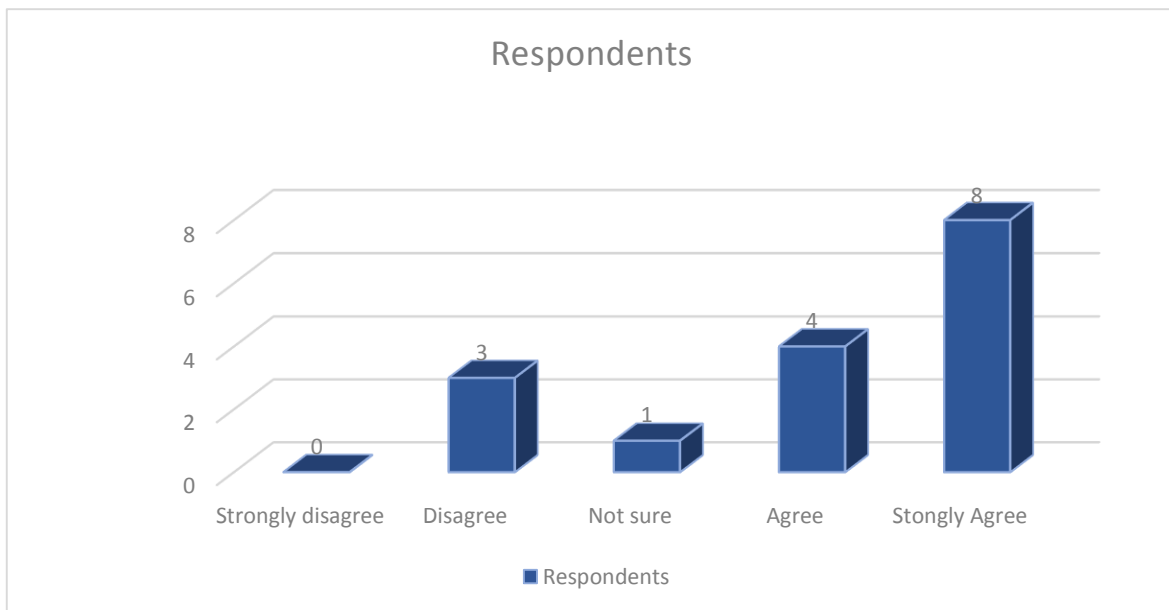
This part of the question was to give knowledge to the researcher on whether the cash flow problems which City of Mutare has been experiencing between 2014 and 2016 was as a result of poor debt financing. Raw data below shows the responses to the question.

Raw data: Responses for cash flow problems

	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
Respondents	0	3	1	4	8

The data above was used by the researcher in drafting a graph in Fig 4.3 below

Fig 4.3 Response for cash flow problems



The above fig4.3 shows that 0/16 respondents strongly disagreed whilst (3/16) 18.75% disagreed and (1/16)6.25% was not sure, and furthermore (4/16) 25% agreed and (8/16) 50% strongly agreed that cash flow problems within City of Mutare were due to poor debt financing.

The aggregate shows that (12/16) 75% respondents were in agreement that cash flow problems were yielded to poor debt financing (4 for agree plus 8 for strongly agree).Goyal (2013) supports their views when he noted that high debt reduces the free cash flow available to management due

to the regular debt payments thus an inability to create a safety net of cash savings which can be used for the day to day running of the business resulting in the company failing to meet immediate costs and liquidity risks. Ghazouani, (2013) also support this by viewing that poor debt financing results in adverse variance through the cash flow problems, hence poor debt financing causes City of Mutare to have cash flow problems which affects the day to day operations and reduce liquidity thus worsening the financial performance of the firm.

On contrary, (3/16) 18.75% disagreed that cash flow problems were as a result of the poor debt finance because they were of the view that there are other factors which cause cash flow problems rather than poor debt finance. This idea is supported by Kajirwa (2017) who viewed that inadequate cash revenue as a result of many debtors influences the cash flow problems. There is sense in this point because City of Mutare has been experience a lot of ratepayers paying using bank transfers, ATM cards and Ecocash due to cash shortages in the country thereby making City of Mutare having less and inadequate cash revenue.

1/16 was not sure on whether cash flow problems were as a result of poor debt financing or not and this maybe because there are other factors which can cause cash flow problems, for example, the economic conditions in Zimbabwe where there is cash shortage. The researcher then concluded that cash flow problems within City of Mutare are as a result of poor debt financing as the majority responded in that opinion.

4.2.4 Poor Managerial Decisions

Part of the question was to feed knowledge into the researcher on whether poor managerial decisions are a result of poor debt financing. Management of City of Mutare have been overinvesting in projects which are not beneficial to the company but for their self-centered

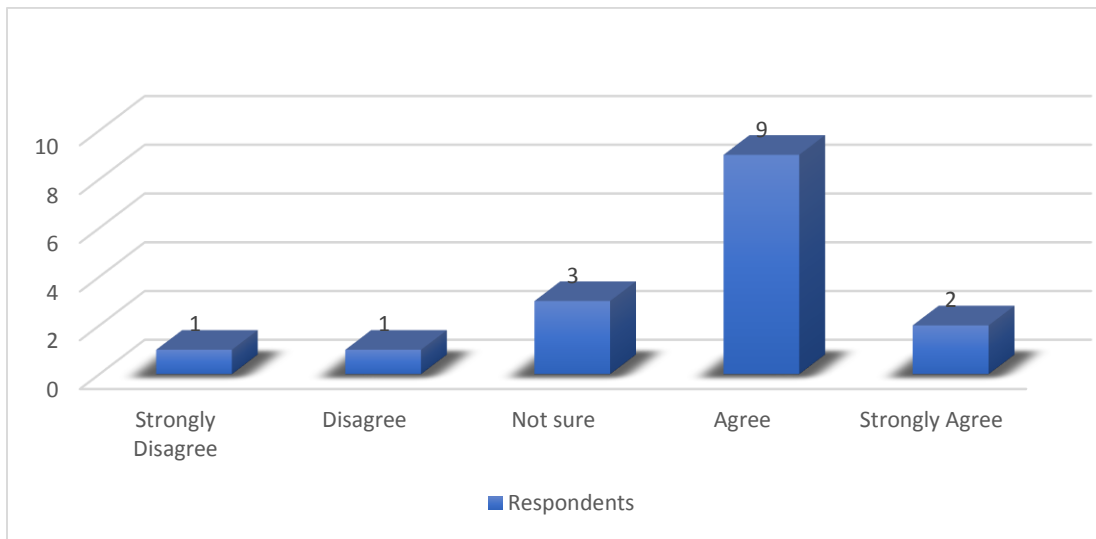
interest and failing to maximize profits, hence the researcher wanted to find out if these poor managerial decisions are as a result of poor debt financing or not. Responses of the sixteen respondents is shown on the raw data below.

Raw Data: Responses for poor managerial decisions

	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
Respondents	1	1	3	9	2

Above raw data was instrumental in designing bar graph in Fig 4.4 below.

Fig 4.4 Responses for poor managerial decisions



As shown by Fig 4.4 above (1/16) 6.25% strongly disagreed, (1/16) 6.25% disagreed, (3/16) 18.75 were not sure, furthermore (9/16) 56.25 agreed and (2/16) 12.5% strongly agreed that poor managerial decisions in City of Mutare result from poor debt financing.

An aggregation of (11/16) 68.75% were in agreement that poor managerial decisions within City of Mutare are as a result of poor debt financing. Chen (2013) and Alzomai (2014) supports this as they were of the notion that poor debt financing influences management in deciding on poor debt structuring practices such as the debt service pattern which leads to a failure in maximizing profits through poor optimal debt ratio. Furthermore, this view was supported by Foster and Young (2013) as they argued that poor debt financing is influential in management not deciding on profit maximization decisions because of using poor debt derivatives and setting a poor debt limit which can adversely affect profitability. Respondents were motivated by the fact that debt was high and overinvestment was experienced yet it yielded little return on assets and profitability due to poor debt derivatives.

(3/16)18.75% were not sure if poor managerial decisions making within City of Mutare is attributed to poor debt financing, as supported by Dernaj (2014) who viewed that other external forces may influence the debt managerial decisions and it will not be fair to blame the poor debt financing for poor managerial decisions.(2/16) 12.5% disagreed that poor managerial decision making within City of Mutare is as a result of poor debt financing. This is supported by Bassey et al, (2014) who argued that poor debt managerial decisions results from inadequate skills possessed by management and influence of the external forces not because of poor debt finance. Respondents were motivated by the fact that City of Mutare employees a lot of acting head of departments who are appointed based on their stay in the company not basing on their academic qualifications. Researcher reached an agreement that management has been making poor decisions which have been failing to maximize profits but adversely affecting them due to poor debt financing, given the fact that the majority of the respondents responded to that belief.

4.3 How debt finance enhances financial performance of City of Mutare

4.3.1 Cost reduction

The question aimed at examining whether cost reduction resulting from debt financing helped City of Mutare in maximizing profits. The table below shows the responses given by the 16 respondents.

Raw Data: Responses for cost reduction

	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
Respondents	1	3	0	2	10

The above raw data was used to draw the graph in Fig4. 5 below.

Fig 4.5 Responses for cost reduction

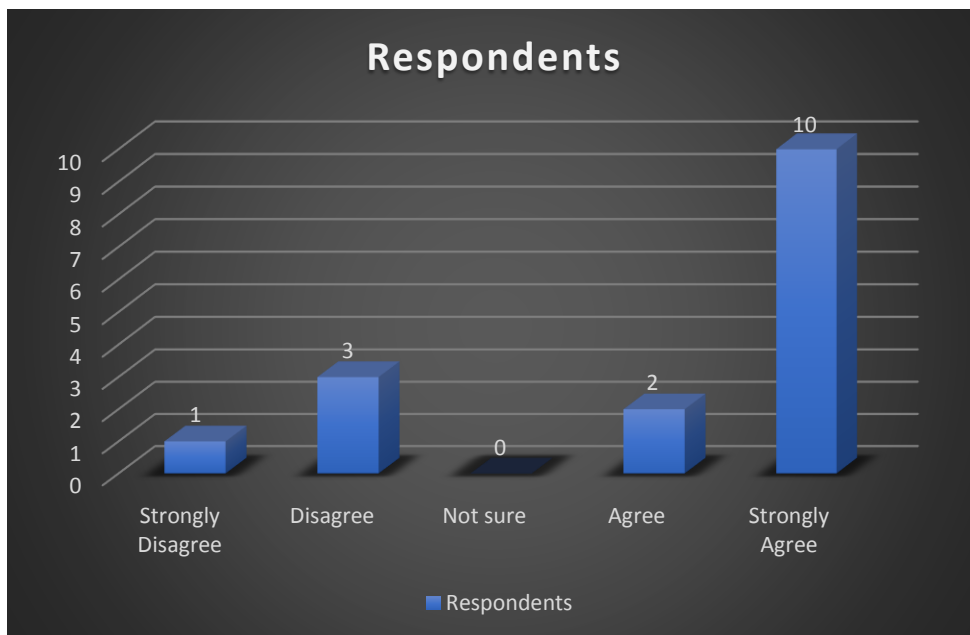


Fig 4.5 above illustrates that (1/16) 6.25% strongly disagreed, (3/16) 18.75% disagreed, (0/16) 0% was unsure, (2/16) 12.5% agreed and (10/16) strongly agreed, that debt finance yielded cost reduction at City of Mutare.

A modal response of (12/16) 75% agreed that debt finance yields a percentage of cost reduction. Their views were motivated by the fact that City of Mutare brought down the averaging costs mixed in the leverage and capital structure of the firm. In literature review, their views have the support of Khalaf Al Tan (2013) who was of the notion that debt financing bring down the averaging costs mixed in the capital structure. Furthermore, respondents may have been motivated by the fact City of Mutare has its debt payments spread over into monthly instalments thereby proving to be cheap as it reduces the costs of immediate payments. In literature review this is supported by Khalaf Al Tan (2014) who said that debt finance is spread over thus reducing immediate payments and proving to be cheap.

However, (4/16) 25% disagreed that debt financing reduces cost as the interest charges increase the expenses of the organisation, as City of Mutare is contractually binded to pay the interest payments to their lender, which is FBC bank. This idea is supported by Muchilis (2013) who argued that interest charges are contractual obligations which has to be paid the debt as per the contract thus signifying the cost of debt and overstatement of expenses. The research indeed agreed that effective debt financing acts as a way of cost reduction as responded by the majority of the respondents though the contractual obligations are spread out into instalments.

4.3.2 Profit Retention

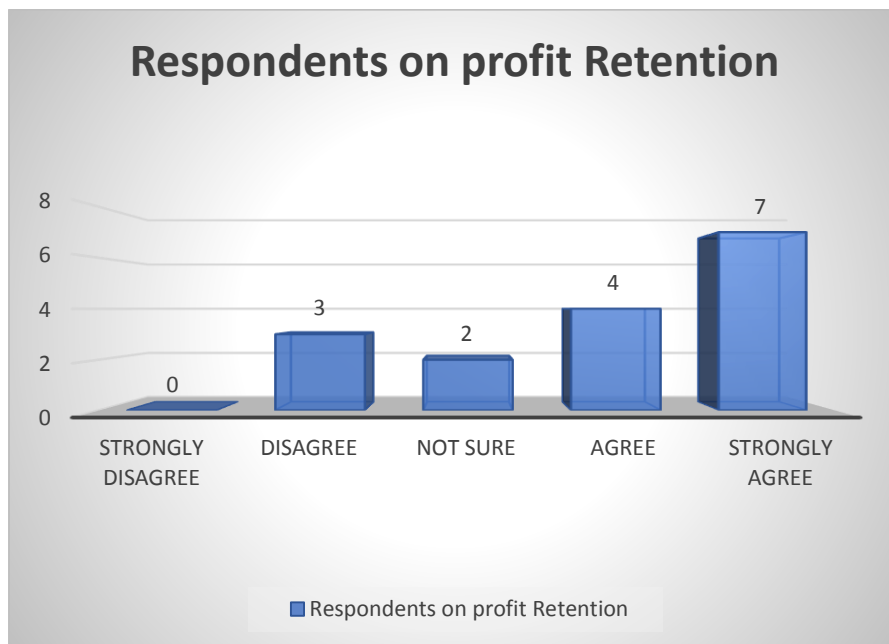
The objective of the researcher on this question was to find out if profit retention as allowed by debt financing is effective in enhancing financial performance of City of Mutare. The table below shows the opinion of the 16 respondents.

Raw Data: Responses on Profit Retention

	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
Respondents	0	3	2	4	7

The above data was useful in designing the bar graph in fig 4.6

Fig4.6 Responses on Profit Retention



In the Fig4.6 above (0/16) 0% of the respondents strongly disagreed, (3/16) 18.75% respondents disagreed, (2/16) 12.5% respondents were unsure, (4/16) 25% agreed and (7/16) 43.75% strongly agreed that financial performance is enhanced because of profit retention which is achieved through debt financing.

By aggregation, (11/16) 68.75% of the responses were in agreement that debt financing is of help to the organisation in retaining profits and the retained profits can be ploughed back into the organisation which can be of help in funding other day to day operations and improving the operations of the business which can yield improved profits. Olayiwola and Chechet (2014) supports this view as they emphasized that debt financing helps the firm in retaining profits. Saeed et al, (2013) went on to emphasize that retained profits will help in funding other day to day operations in a bid to improve financial performance. This is experienced at City of Mutare as the retained surplus was used to purchase new motorcycles for chief meter readers so as to inspect if there are quality water services provided to ratepayers and to make sure defaulting ratepayers have their services cut short until they pay.

(2/16) 12.5% were not sure if debt financing would help in retaining profits as they viewed that debt finance may increase the chances of the company making losses. (3/16) 18.75% disagreed that debt finance encourages City of Mutare in retaining profits (surplus) as they viewed that profits made may be obliged to cover the debt which may lead to the organisation operating at break-even or below thus failing to have a satisfying return on assets and profitability. This is supported by Wahab and Ramli (2014) who emphasized that profits made in a highly leveraged are obliged to pay back the debt. This makes sense because the surplus made in City of Mutare goes to pay the debt finance from FBC bank resulting in the organisation recording declining net surplus for the past 3 years ranging from 2014 to 2016. Since majority of the respondents agreed

that debt finance encouraged profit retention, the researcher was in agreement that effective debt financing results in profit retention which will enhance financial performance.

4.3.3 Better Planning and Forecasting

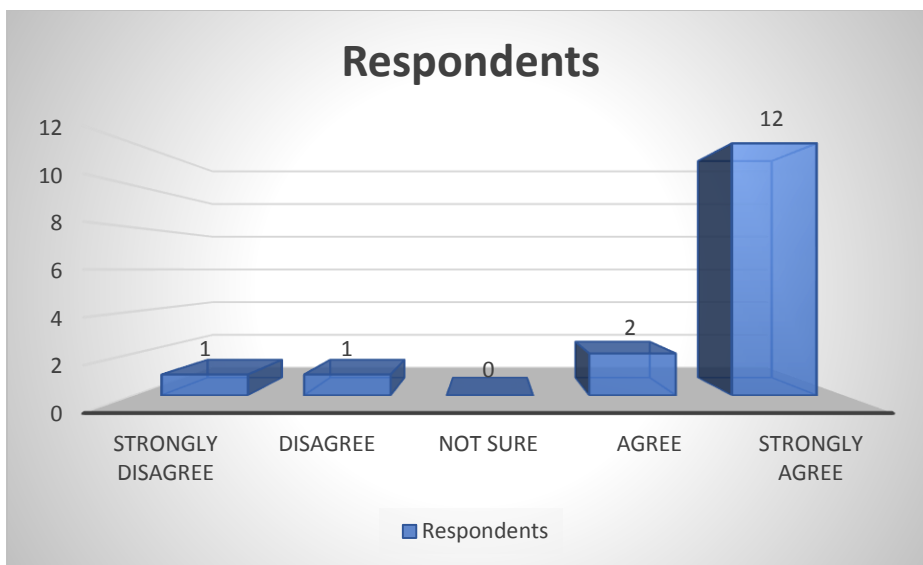
The question aimed at ascertaining if debt finance enables better planning and forecasting which act as an enhancement to the financial performance. The raw data below show the views of the respondents who answered the question.

Raw Data: Response to Better Planning and Forecasting

	Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
Respondents	1	1	0	2	12

The above data was used in designing the column graph in fig 4.7

Fig 4.7 Responses on Better planning and Forecasting



As shown by Fig 4.7 above (1/16) 6.25% strongly disagreed, (1/16)6.25% disagreed, (0/16)0% was not sure, (2/16) 12,5% agreed and (12/16)75% strongly agreed that debt finance is of help in better planning and forecasting which enhances the financial performance of the business.

A modal of (14/16) 87.5% were of the opinion that debt financing is pivotal in future and better planning and forecasting because there is easier planning. Debt finance makes it easier for management to make financial plans as they know the principles and interests which have to be paid monthly. This is in support of Khasidi and Makame (2013) who viewed that debt financing helps management in forecasting because the interest and principles do not vary in the future but are rather fixed. This line of argument is evidenced in City of Mutare because they budget the principle and interest amount to be paid to FBC bank hence they are able to have effective and better financial planning and forecasting in a bid to enhance financial performance.

However, (2/16) 12.5% disagreed that debt finance is pivotal in better planning and forecasting. This is supported by Mumtaz et al (2013) who was of the view that debt financing can adversely impact on financial plans and operational decisions of the organisation hence resulting in poor decisions which will negatively influence the enhancement of financial performance. Respondents may be motivated by the fact that City of Mutare planned for debt payment not taking into consideration overheads costs such as salary and wage which resulted in a backlog of salaries thereby demotivating the employees. This line of argument is supported by Ogebe et al (2013) who said that decision making as a result of debt financing only focus on the interest and principle charges.

Prior to the majority of the respondents, the researcher agreed that to a greater extend debt financing adopted by City of Mutare exceled well in better planning and forecasting but however if management do not consider other overheadsthey may yield poor decisions.

4.3.4 Expansion and Revenue Increase

The question's objective was to determine if effective debt finance encourage expansion of the business and increase in revenue which will enhance financial performance. Table below shows respondents who answered the question.

Table 4.2 Expansion and Revenue Increase Responses

Opinion	Agree	Disagree
Respondents	13	3
Rate	81.25%	18.75%

Table 4.2 above is showing that (13/16) 81.25% of the respondents agree that effective debt finance encourages expansion and revenue increase whilst the remainder of the respondents (3/16) 18.75% disagreed that debt financing encourage business expansion and revenue increase in a bid to enhance the profitability of City of Mutare. (13/16) 81.25% who agreed that debt financing adopted by City of Mutare encouraged expansion and revenue increase cited that debt finance encourage expansion and innovations which will enhance the financial performance of City of Mutare because debt finance is easy to access and funding new projects and financing other expansion operation thus increasing the sources for revenue. This is supported by Rezai and Azed (2014) where they studied that expansion through diversification increase revenue thus finding a positive relationship between leverage and diversification. This line of argument is evidenced in City of Mutare where debt finance is funded the establishment and innovation of water pipes in some residential areas, thus increasing the number of ratepayers who will increase the revenue.

(3/16)18.75%disagreed that debt finance encourages expansion and revenue expansion.3/16 respondents had the motivation that overuse of debt limit growth and expansion because a portion of future profits for growth are allocated to debt payments thereby stifling expansion and an increase in revenue generation. This is supported by Timmi et al (2014) who asserted that future growth profits will be allocated to debt payment therefore stifling growth.

The researcher agreed that to a large extent does effective debt finance influence expansion and revenue increase as the majority of the respondents believed in the same opinion.

4.4 Challenges faced by debt financing at City of Mutare in improving financial performance

The researcher came up with challenges faced by debt financing in improving financial performance of City of Mutare. These challenges are associated with adopting a debtfinance and havetheir consequences in improving financial performance. These challenges include collateral, low debt coverage ratio, limited flexibility with low credit rating and lack of knowledge on debt finance maintenance.

4.4.1 Collateral

The aim of the question was to determine if collateral is a challenge faced by debt finance in improving the financial performance. A summary of the responses from the 16 respondents is given on Table 4.3.

Table 4.3 Collateral Responses

Opinion Analysis	In agreement of Collateral being a challenge	Against Collateral being a challenge
Respondents	10	6
Rate	62.5%	37.5%

Table 4.3 show that (10/16) 62.5% of the respondents agreed that collateral is a challenge faced by debt finance in improving financial performance, whilst (6/16) 37.5% were against the point that collateral is a challenge faced by debt finance in improving financial performance. 6/10 who agreed that collateral is a challenge stated that collateral have the risk of the business losing its assets because the organisation pledges assets as collateral to the lender, thus failure to pay will resulting in the seizing of the assets. This was supported by Rahman (2017) who said that debt finance requires the borrower to pledge assets to the lender as collateral which have a risk of losing the assets, in set-off of debt if there is failure to pay back the debt, thus affecting business operations and challenging in improving financial performance.

4/10 who agreed on collateral being a challenge, further noted that noted that collateral increases the inability to use other assets in terms of default which cuts out effective operations thereby failing to improve financial performance. This argument rose when City of Mutare could not use the water vehicle which was seized by FBC after defaulting to pay 2 months interest charges, thereby resulting in shortage of transportation for water services which yielded poor services and late responses to water problems in residential areas resulting in poor water services and ratepayer dissatisfaction. This notion is supported by Matemilola et al (2014) who emphasized

that most organisations put their assets on collateral as debt financing security and failure to pay the debt results in inability to the assets hence adversely affecting operations and challenging financial performance improvement.

(6/16) 37.5% argued that collateral is not a challenge faced by debt financing adopted by City of Mutare in improving financial performance, they said that collateral will not be a challenge if there is effective debt finance management thus no defaulting of payments. One responded went on to say that collateral can be avoided if the organisation does not depend on too much debt and pledge its reserves as collateral instead of pledging important assets. This issue was brought up by the fact that City of Mutare re-negotiated so as to pledge idle motor vehicles which were not of important use. Dikova (2015) supports this view when he said that collateral can be avoided if the business does not depend on too much debt. The researcher concluded that collateral challenges the effectiveness of debt financing in improving financial performance hence the view of the majority of the respondents.

4.4.2 Low Debt Coverage Ratio

The question was aimed at ascertaining if a low debt coverage ratio challenged the improvement of financial performance within City of Mutare. Table 4.4 below summarizes the responses of the 16 respondents.

Table 4.4: Debt Coverage Ratio responses

Opinion Analysis	Support that low debt coverage ratio is a challenge	Criticize that low debt coverage ratio is a challenge
Respondents	6	10
Rate	37.5%	62.5%

Table 4.4 shows that (6/16) 37.5%) were supporting, whilst (10/16) 62.5%)were against the view that low debt coverage ratio has been a challenge faced by debt finance in improving financial performance at City of Mutare. (6/16) 37.5% who supported the notion of low debt coverage ratio as a challenge stated that it signifies failure to keep an optimal debt ratio thereby limiting debt finance in its bid to improve financial performance, with one respondent further explaining that a low debt coverage ratio is less than 1 signifying a negative cash flow as there is much debt payment as it does to net operating income and return on assets.

This argument was supported by the trend of the operating income generated from debt financed projected and the interest payments whereby the return on assets in City of Mutare increased at a slower rate and the debt payments has an excessive boom to the revenue which is going towards the break-even level and if the organisation keep on having a low debt coverage ratio it will fail to break-even. This is supported by the Atieh (2014) who says that organisations focus more on the obligation and ignore the gross profit from the debt financed business which usually results in a low debt coverage ratio and failure to break-even thereby challenging the improvement of financial performance. This is also supported by Daniela et al (2014) who said that more debt will be paid as compared to the net operating income signifying an operation below break -even.

However, (10/16) 62.5% who were against the view of a low debt coverage ratio being a challenge noted that debt coverage ratio should be high so as to have as much as net operating income to its debt payment. The arguments of keeping an optimal debt ratio and a high coverage ratio arose because City of Mutare is on the brink of employees additional qualified and experienced personnel in the expenditure section to deal with the debt finance and to keep a high debt coverage ratio. This is supported by Anwar (2017) who emphasized that high debt coverage ratio results in an organisation having as much net operating income to its debt payment.

Since majority of the respondents viewed that low debt coverage ratio is not a challenge, the researcher indeed agreed with the notion that a high debt coverage ratio is highly probability which is an effective solution to a low debt coverage ratio.

4.4.3 Limited flexibility and low credit rating

The aim of the question was to determine if limited flexibility and low credit rating, as a challenge faced by debt financing, has an influence in improvement the financial performance of City of Mutare. Below is Table 4.5 which shows the responses concerning limited flexibility and low credit rating.

Table 4.5 Limited flexibility and low credit rating responses

Opinion	Of the notion that limited flexibility and low credit rating is a challenge	Are against the notion that limited flexibility and low credit rating is a challenge
Respondents	9	7
Rate	56.25%	43.75%

Table 4.5 is showing that (9/16)56.25%of the respondents noted that limited flexibility and low credit rating is a challenge faced by debt finance in improving financial performance, whilst (7/16) 43.75% were against the notion.

9/16 (56.25%) who noted that limited flexibility and low credit rating as a challenge cited that credit rating acts as a screening device for lenders in deciding to lend and it is a challenge in the sense that it cuts out access to future borrowed funding which makes it possible to innovate and to have fast and easy accessible funds. The respondents were motivated by the fact that City of Mutare was could not access a bank overdraft from Banc ABC bank due to the low credit rating from the report of FBC bank.In literature review, this is supported byKajirwa (2014) who viewed that ongoing borrowing is attractive to every loan is noted in the creditor’s report thereby yielding a low credit rating.

Moreover, the respondents pointed out that City of Mutare could not access the overdraft from Banc ABC bank as they had a pending debt at FBC thus limiting flexibility and was unable to have borrowed funding for immediate day to day operations and innovations hence being a

challenge in improving financial performance. This is supported by Arraiz et al (2014) who noted that too much borrowing results in limited flexibility and loss of creditors.

(7/16) 43.75% were against the notion that limited flexibility and low credit rating are challenges faced by debt finance in improving profitability. The respondents stated that limited flexibility is not a challenge if debt finance is maintained at optimal debt ratio, highlighting that even though there is limited flexibility as long as an optimal debt ratio is maintained there is a progress in profit maximization. This is supported by Modi (2014) who asserted that limited flexibility as a result of high leverage does not pose a challenge if an optimal debt ratio is maintained. The argument was motivated by the fact that management at City of Mutare is trying to achieve a positive return on assets from the debt finance and ploughing back surplus even though they do not have flexibility to other external sources, mostly debt.

Furthermore, the respondents noted that although there is limited flexibility to future debt, there is a benefit of future profits when the debt is paid fully, which will be used in place of debt. This is supported by Ronoh (2015) who was of the view that retained profits will yield improved operations which will improve financial performance. Since majority of the respondents were in support of low credit rating and limited flexibility being a challenge, to a larger extent the researcher agreed because of the major point that it limits access to future debt funds which may limit expansion, however if the management keeps an optimal debt ratio limited flexibility and low credit rating will not be a challenge as there is profit maximization and the organisation will use future profits.

4.4.4 Lack of knowledge on debt maintenance

The question aimed at ascertaining whether lack of knowledge on debt finance maintenance poses a challenge in improving financial performance of City of Mutare. Table 4.6 below shows the respondents of the 16 respondents on whether lack of debt maintenance knowledge is a challenge.

Table 4.6 Lack of knowledge on debt finance maintenanceresponses

Opinion Analysis	In support of Lack of Knowledge on debt finance maintenance as a challenge	Not supporting lack of knowledge on debt finance maintenance as a challenge
Respondents	14	2
Rate	87.5%	12.5%

From the above Table 4.6 (14/16) 87.5% supported that lack of knowledge on debt finance is a challenge faced by debt finance in improving financial performance whilst (2/16) 12.5% were not supporting lack of knowledge on debt maintenance as a challenge in their responses.

(14/16) 87.5% respondents who were in support of lack of knowledge on debt maintenance, stated that inadequate knowledge and expertise concerning debt finance maintenance pushes for missing on debt payments which results in the incurrence of late fees which are accompanied by penalty fees and hurting credibility of the business hence challenging improvement in financial performance.

13/14 stated that inadequate knowledge on debt finance maintenance technique prohibits the coverage of monthly overheads and monthly labor costs, with 1/14 respondent among the four

further explaining that lack of knowledge on debt maintenance makes it difficult to cater for repayments and other overheads thereby leaving a gap in efficient and effective debt finance maintenance which results in an optimal debt ratio being unmaintained and thus challenging improvement of financial performance. The motivating factor for this notion was that City of Mutare is that management failed to pay outstanding salaries as their focus was more on debt and they skipped paying some interest instalments resulting in FBC garnishing City of Mutare and slapping it with a penalty fee and also there was chaotic bookkeeping of debt. In literature review, Nunes and Serrasquero (2015) supports this view when they said that inadequate knowledge of debt financing management is the way to wrong maintenance of optimal debt ratios to maximize profits hence challenging profitability improvement. Moreover, Abel (2017) supports this view by saying that lack of debt finance management pushes for missing payments and the resultant is incurring late fees and adverse business credit.

Objection of the challenge posed by lack of debt maintenance in improving financial performance was done by 2/16 respondents. The respondents viewed that inadequate knowledge on debt finance maintenance was not a challenge but rather the firm should inject more knowledge on employees concerning debt finance maintenance. One respondent further explained that there should be segregation of duties whereby there should be a job description which focus on debt maintenance rather than having a workload which is risk to mistakes and vulnerability. The view of injecting knowledge may be motivated by the fact that City of Mutare and FBC bank held seminars concerning effective debt finance maintenance and there was specialization of labor whereby employees were directly told what to do. This is supported by the literature of Chatterjee (2017) who noted that maintaining an optimal debt finance requires specialization and duty segregation as stated in employees job description. Bhandari et al (2017)

supports this when they emphasized on the need for professional improvement through the use of seminars and educational courses. The researcher reached a conclusion that lack of knowledge on debt maintenance is a challenge to City of Mutare in improving financial performance since majority of the respondents supported this notion.

4.5 Relationship between debt finance and financial performance

Regression analysis was used in determining the relationship between debt finance and financial performance of City of Mutare. ROA was the dependent variable (measure of profitability) with total debt finance, short term debt finance, long term debt finance and tangibility among others as the independent variables. Data from the questionnaires and interviews was used. Data was imported from excel to Stata/SE 14.2. Below are the results.

4.5.1 Long term debt

Table 4.7 Simple linear regression analysis results from Stata (Long term debt)

```
. import excel "C:\Users\CHARLEKUDA\Desktop\Book1.xlsx", sheet("Sheet1") firstrow
. regress financialperformance longtermdebt
```

Source	SS	df	MS	Number of obs	=	3
Model	10384.6154	1	10384.6154	F(1, 1)	=	675.00
Residual	15.3846154	1	15.3846154	Prob > F	=	0.0245
				R-squared	=	0.9985
				Adj R-squared	=	0.9970
Total	10400	2	5200	Root MSE	=	3.9223

financialp-e	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
longtermdebt	.5769231	.0222058	25.98	0.024	.2947719 .8590743
_cons	224.2308	17.68813	12.68	0.050	-.5181887 448.9797

A significant and positive relationship exists between long-term debt (independent) and financial performance (dependent variable) as the long-term debt received a positive coefficient of

0.5769231 and a beta 0. 5769231. Moreover, the t-test value of 25.98 illustrates the impact of long term debt finance thereby showing that the impact and effect of long-term debt finance surpass that over the error by around 25 times. The relationship was significant since because the T-value was above than 2 (25.98) which is the benchmark for significance (2) and the probability is 0.024 shows significance of the relationship whereas probability of less than 50% is said to be significant, Salomons (2013). These results are supported by Kebewar (2013), Acigoz (2013) and Anandasayanan (2013) in their empirical studies were of the notion that long term debt finance records a positive financial performance (Return on Assets employed). Acigoz (2013) argued that long term debt finance increase project capacity with long payback periods therefore positively relating to Return on Assets in the long run. 10/16 (62,5%) respondents to the questionnaires shared the view that long term debt finance is positively related to financial performance. In conclusion, the researcher reached an agreement that long term debt has a significant positive relationship with financial performance as per the majority of the respondents and all the some of the interviewees in inclusion of the regression analysis.

4.5.2 Short term debt

Table 4. 8 Simple linear regression analysis results from Stata (Short term debt)

```
. regress Financialperformance shorttermdebt
```

Source	SS	df	MS	Number of obs	=	3
Model	330598.611	1	330598.611	F(1, 1)	=	2.12
Residual	156068.055	1	156068.055	Prob > F	=	0.3832
				R-squared	=	0.6793
				Adj R-squared	=	0.3586
Total	486666.667	2	243333.333	Root MSE	=	395.05

Financialp-e	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
shorttermd-t	-2.191814	1.505949	-1.46	0.383	-21.32671 16.94308
_cons	3129.692	592.797	5.28	0.119	-4402.507 10661.89

In the regression results short term debt possessed a coefficient of -2.191814 and a *T* statistic of -1.46, meaning that it had a negative correlation with financial performance and it was significant as the probability was 0.383(38.3%) which is below 50% thus the maximum value for significance. This influenced the researcher to agree that short term debt and ROA or profitability have a negative relationship. In literature review, Ebaid (2013) found out that short term debt negatively related and impacted to ROA. Osuji and Odita (2014) were of the argument is that short term debt is for lowering liquidity thus it lowers profitability and ROA hence financial performance,

4.5.3 Tangibility

Table 4. 9 Simple linear regression analysis results from Stata (Tangibility)

```
. import excel "C:\Users\CHARLEKUDA\Desktop\Book1.xlsx", sheet("Sheet1") firstrow
. regress financialperformance tangibility
```

Source	SS	df	MS	Number of obs	=	3
Model	10135.1351	1	10135.1351	F(1, 1)	=	38.27
Residual	264.864865	1	264.864865	Prob > F	=	0.1020
Total	10400	2	5200	R-squared	=	0.9745
				Adj R-squared	=	0.9491
				Root MSE	=	16.275

financialp~e	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
tangibility	1.013514	.1638426	6.19	0.102	-1.068305 3.095332
_cons	48.24324	102.5599	0.47	0.720	-1254.904 1351.39

The proportion of the structure of the assets was statistically shown to be positively related with the financial performance as measured by ROA. Standard coefficient was 1.0135134 and a *t*-value of 6.19 which had a significant level of 2, therefore it was significant because it was above 2. Probability is below 50% at 10.2% (0.102) which shows that the relationship is significant. From the results, it was clear that tangibility enabled organisations to invest and use the assets

efficiently. This is because tangibility is pledged for collateral therefore enabling borrowings and influences an increase in ROA.87.5% (14/16) respondents of questionnaires were in agreement that there is a positive relationship between tangibility and debt finance and ROA.In literature review, Sangeetha and Sivarathan (2013) agreed that there is a positive relationship between debt finance and tangibility as firms associated with debt finance have the assets to pledge as collateral.Chechet et al (2013) were of the notion that although the relationship was not statistically significant ,a positive relationship was observed.

4.5.4 Total Debt

Table 4. 10 Simple linear regression analysis results from Stata (total debt)

```
. regress Financialperformance totaldebt
```

Source	SS	df	MS	Number of obs	=	3
Model	276712.265	1	276712.265	F(1, 1)	=	1.32
Residual	209954.402	1	209954.402	Prob > F	=	0.4562
				R-squared	=	0.5686
				Adj R-squared	=	0.1372
Total	486666.667	2	243333.333	Root MSE	=	458.21

Financialp~e	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
totaldebt	-1.206594	1.051016	-1.15	0.456	-14.56102 12.14784
_cons	3712.873	1230.438	3.02	0.204	-11921.32 19347.06

In the above Table 4.10, the coefficient of -1.206594 indicates that a significant negative relationship exists between total debt and financial performance as measured by ROA.This is supported by the literature of Abdel-Jalil and Towfiq (2014) who noted that a negative relationship between total debt and profitability is significant. The notion is that an increase in total debt lowers profitability of the organisation.45.6%(0.456) is indicated by the probability value which is the variation in dependent variable and explained by the variation in the

independent variable. The probability shows a significant relation that increase in total debt lowers financial performance. The result is in line with argument of Choi(2014) who said that firms have internal funds as the first preference as compared to external financing. This influenced the researcher to conclude that total debt and financial performance are negatively correlated as agreed by 13/16 (81.25%) of the questionnaire respondents.

4.6 INTERVIEW RESPONSES

4.6.1 What are the effects of poor debt financing that adversely affect financial performance?

Respondent 1

The respondent said that poor debt financing results in an increase in finance costs due to an increase in interest costs, this point is supported in literature review by Nazir and Saita (2013) viewed that poor debt finance increases the agency costs, thereby increasing the finance costs which leads to poor financial performance.

The respondent further stated that that poor debt increases the finance costs as there is increased costs associated with managing the debt finance resulting in the company increasing complexity in its debt administration as there is the handling of many tasks and extensive reporting requirements, which is costly and more work will result in excess working hours which increase overtime incentives and increase in the structure of management and owners thus adding up to expenses and understating profitability. This was a new line of argument not covered in literature review. The motivation to this point was the fact that City of Mutare has been hiring additional expensive personnel to administer the debt finance leading to an increase in the payroll and wage expense despite the existence of managers already in the company

Respondent 2

Cash flow problems results from poor debt finance as stated by the respondent. The respondent said that cash flow problems results because interests payments are a legal obligation to be paid by City of Mutare to FBC bank and this reduces the amount of free cash flow available to managers. This is supported by Goyal (2013) who said that debt decreases free cash flow available for investment thus yielding an adverse variance and inability to create a safety net of cash savings. The respondent was also of the view that poor debt finance may influence managers to overinvest due to a decrease in free cash flow as a way to achieve the availability of cash flow even though the projects yield a low return on assets as compared to the budgeted.

Respondent 3

The respondent was of the notion that poor debt financing results in management making poor decisions such as overinvestment in unbeneficial projects and there will be the use of poor debt derivatives which results in poor debt structuring and limits. In literature review, Antonczyk and Salzman (2014) supports this by argued that poor debt financing influences managers in deciding on poor debt structuring practices which negatively affect the optimal debt ratio and failing to maximize profits. Antonczyk and Salzman (2014) further stated that there will be poor debt service patterns and average maturity which challenges the keeping of an optimal debt ratio and unbeneficial overinvestment. This point is similar to the one reflected by the respondent.

Respondent 4

The respondent pointed out that there will be financial risk and financial distress as the firm will fail to honor its debt obligations and interest burden as a result of the increasing interest costs associated with poor debt financing. This is supported in literature review by Fang (2016) who

highlighted that heavy and poor debt increase interest costs and interest burden which in turn increase the probability of failing to repay the debt, thus increase the financial distress. The respondent further stated that poor and high debt increase the risk of high liquidity levels due to the fact that failure to service the debts may lead to bankruptcy, as supported by Muigai et al (2016) in literature review who noted that debt increase expose firms to the risk of high liquidity.

4.6.2 How does debt finance adopted by your organisation enhance financial performance?

Respondent 1

The respondent cited that City of Mutare debt finance adopted by City of Mutare was of great effectiveness as it proved to be pivotal in innovation as management had the necessary and readily available funds to finance new ideas, strategic plans and put them into practice. This was a new idea of using debt finance as it was characterized by the creation of new ideas resulting in current thinking which needed easy funding and debt finance proved to be easy to access, fast and effective. The respondent went on to say that debt finance proves to be cheap as debt payments are spread over. This is in line with the fact that repayment of the loan is spread over months as interests until it reaches the principle amount rather than paying it once. This is supported by Khalaf Al Tan (2014) who noted that debt payment is spread over and proves to be cheap.

Respondent 2

The second respondent was of the view that debt finance adopted by City of Mutare made it possible to achieve better financial plan and forecasts as a result of the fixed payments which do not vary with effect from adopting the debt. The respondent cited that there is easy planning because the interest and principle payments are fixed and they are paid monthly. The issue was

raised by other respondents in the questionnaire who agreed that debt finance makes it possible for financial planning and is evidenced as City of Mutare has to pay the same interests to FBC as per contractual obligation. The notion of easier planning is supported by Khasidi and Makame (2013) who say that debt financing helps in forecasting as interest and principle payments are fixed and do not vary because of the market.

Moreover, the respondent clarified that there is easy planning because control is retained by management thereby it makes it easy to do hiring and purchasing decisions, as long as the obligations are met, for the good interest of the company. This idea is in line with the situation which happened whereby City of Mutare sub contracted an information technology company to install and update Promun accounting software without FBC management influencing the decision. In literature review, Chinaemerem and Anayochukwu (2013) supports this when they said that management can have hiring and purchasing decisions without the lender's influence.

Respondent 3

The respondent stated that debt finance encourages the organization to retain its profits(surplus) and plough it back into the business. The respondent went on to say that City of Mutare retained more surplus and ploughed it back regardless of the decrease in the surplus and this was because profits are not shared as the capital structure is highly leveraged. In literature this was supported by Olayiwola and Chechet (2014) who emphasized that debt financing helps the organisation in retaining profits. Adding on, respondent said that there is a limited obligation to the debt finance as the obligation will come to an end and the business will enjoy the return on assets and profits from the debt financed operations without any worry about any financial obligation. This idea was in line with the literature review where it says that debt payments obligation will come to an

end and profits will be ploughed to the organisation only, Rezai and Azad (2014), which results in the funding and improving operations hence enhancing financial performance.

Respondent 4

The respondent was of the opinion that debt finance has been effective in funding for expansion which led to revenue increase thus enhancing financial performance. The respondent emphasized that if the organisation would not have adopted debt finance the company could not have been able to fund for innovations and expansion into the water project which are the main source of revenue for the company. The respondent gave an example of how debt finance enhanced expansion, saying that the borrowed funds were used to establish the water projects in some areas through the installation of water pipes and pre-paid meters thereby increasing the revenue base of City of Mutare. This notion is supported by Lemma and Negash (2013) who emphasized that debt finance allows companies to leverage existing funds to rapid expansion and innovation.

After thoroughly analyzing the above interview responses, the researcher was convinced and concluded that debt finance enhances financial performance since all of the four responses highlighted effective ways on how debt finance enhances profitability

Above interview responses influenced the researcher to conclude that poor debt financing causes financial risks, poor management decisions, cash flow problems and high finance costs which affects the liquidity and profitability of the company.

4.6.3 What are the challenges faced by debt financing at your organisation in improving financial performance?

Respondent 1

The respondent noted that collateral was a challenge as a result of the debt finance adopted by City of Mutare, in improving financial performance as they pledged some of the assets which included motor vehicles from the water department which negatively affect the operations of the water section hence resulting in poor services and discouraging the improvement of financial performance. The respondent went on to say that failure to pay the outstanding debt will result in FBC seizing the assets held under collateral and selling them on auction so as to set off the debt. Selling of collateral security by the lender is another of challenges brought in which have not been covered in literature review. The respondent added that a high debt to equity ratio challenges the company in generating enough cash for satisfying debt obligations and lenders interest do not have protection in case of business failure. This argument is not in the literature review but it is a new idea generated from the interview. The respondent concluded by saying that collateral puts business assets at risk in case of cash problems, whereby the loan is paid using pledged assets, which results in financial mess difficult to escape hence negatively impacting financial performance. Moreover, the respondent added that high debt-to-equity ratios do not attract additional capital.

Respondent 2

The respondent said that City of Mutare is experiencing a low debt coverage ratio which is resulting in an increase in cash flow problems and diminishing financial performance since 2014. Respondent noted that City of Mutare has a debt coverage ratio of 0.7, which signifies that

the organisation has more current debt obligations as compared to the available cash flow, thus a bad debt ratio and an adverse improvement in financial performance. This is supported by Rasoolpur (2014) who stated that a low debt coverage ratio is below one. The respondent also stated that City of Mutare is having a diminishing return on assets concerning the debt financed water project because the finance costs are increasing more than the generated revenue thereby resulting in the payment of more debt as compared to the available cash thereby discouraging the improvement of financial performance. This is supported by Daniela et al (2014) who said that more debt payment as compared to net operating income signifies operating below break-even. Lastly, the respondent highlighted that there is inadequate knowledge on debt finance maintenance which is a challenge on profit maximization and improvement on financial performance. This is supported by Nunes and Serrasquero (2015) who argued that improvement in financial performance is challenged due to failure to maintain optimal debt ratios as a result of inadequate knowledge on debt finance maintenance.

Respondent 3

In the respondent's opinion, low credit rating is the challenge faced by debt financing in improving financial performance. The respondent was of the notion that banks' credit reports have been rating City of Mutare low due to the fact that it uses high leverage thereby limit flexibility to future debt finance for future expansions and loss of creditors and lenders, for example, City of Mutare lost Bank ABC as their lender due to high leverage operation. This is in line with the view of Samuel et al (2017) who agreed that low credit rating results in loss of creditors. However, the respondent that if there is a low credit rating, the organisation can effectively use the debt in a bid to improve its profitability so that instead of applying for future debt finance, organisation can use future profits. This is supported by Aliakbar et al (2014) who

asserted that low credit is not a challenge as the debt finance can be maintained and effectively and economically used in a bid to progress in maximizing profits which can replace debt finance in the future.

Respondent 4

The respondent highlighted that inadequate knowledge on debt finance management is not a challenge in improving financial performance because it is qualitative and rather the firm not injecting knowledge on its debt finance management system. The respondent stated that it is the challenge of the organisation's structure and recruiting policy which does not employ qualified personnel to maintain the debt effectively. The respondent was motivated by the fact that nowadays most job recruitments are as a result of familiarity issues. This is supported by Kamua and Kagiri(2015) who said that inadequate debt maintenance knowledge is not a challenge in improving financial performance. The respondent added that inflation poses a being challenge on debt finance in improving financial performance whereby debt financed project would not improve financial performances due to the inflation environment which affects the return on assets and profitability as revenue decreases and debt finance costs rise. This line of argument is not in the literature review as it was derived from the interview.

The above responses convinced the researcher to conclude that challenges faced by debt financing at City of Mutare greatly discourage the improvement of financial performance and were as well in line with the majority of the questionnaire responses, however some of the challenges can be avoided without affect the debt finance but by improving the firm's personnel.

4.7 Chapter Summary

The chapter's objective was presenting and analyzing data which was collected from the questionnaires and interviews. The chapter also consisted of the regression analysis which was analyzing the relationship between debt finance and financial performance. The data collected was linked up with the supporting literature reviews for data analysis. The researcher will come up with recommendations and research findings useful in strategic and vital decisions for the company through data analysis. The next chapter will focus on summaries, conclusions and recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter gave the summary of the findings, conclusions and also further research areas about the impact of debt finance on financial performance of City of Mutare. In this chapter, all the preceding chapters were summarized thus briefly explaining the study. In conclusion of Chapter five, the researcher gave recommendations to City of Mutare in regard of the research findings in a bid to address the problem of diminishing financial performance experienced by the company.

5.1 Chapters Summaries

The study aimed at determining the impact of debt finance on the financial performance of local authorities using City of Mutare as a case study. In chapter one, the researcher highlighted the different approaches of various scholars on the impact of debt finance on the financial performance of the manufacturing firms in developed countries, the researcher then proceeded to establish the research gap by deciding to analyse the impact of debt finance on financial performance of local authorities. The main problem being faced by City of Mutare was established which acted as a motivation to the researcher to carry out this study, and also the research objectives were established which are; to determine the effects of poor debt the effects of poor debt financing to adversely affecting financial performance, to determine how debt finance adopted by City of Mutare enhances profitability, to determine challenges faced by debt financing at City of Mutare to improve financial performance and to determine the relationship between debt finance and financial performance. The chapter was concluded by highlighting the limitations, delimitations and assumptions of the research.

Chapter two focused on literature review which provided a critical analysis on what previous scholars concluded concerning the impact of debt finance on financial performance. The major thoughts derived from literature review were that poor debt financing resulted in high finance costs, financial risk and financial distress, cash flow problems and poor managerial decisions and that if debt finance is effectively adopted it can enhance profitability through cost reduction, profit retention, better financial planning and forecasting and expansion and revenue increase. The literature also reviewed that collateral, low debt coverage ratio, limited flexibility and low credit rating and lack of knowledge on debt finance maintenance are challenges faced by debt finance in improving financial performance. Lastly, the other major thought from literature review was the relationship between debt finance and financial performance, discussing them using short term debt, long term debt, total debt, tangibility and profitability and ROA.

Chapter three discussed the research methodology which was applied in the research, and the research design used was descriptive research design. Interviews and questionnaires were used to collect both quantitative and qualitative primary data. A target population of 19 City of Mutare employees was used since they had first hand information concerning the company's debt finance and financial performance. In data collection the researcher used a census.

Chapter 4

Chapter 4 presented the data and analyzed it, and presentation was aided by tables, graphs and pie chart. Data was also analyzed using Excel packages and Stata 14.2 package. The panel data approach established the relationship between debt finance and financial performance by way of simple linear regression. The researcher discussed presented data through analysis of raw data and comparisons were drawn between raw data and literature review and in the absence of comparisons, detailed explanations were given.

5.2 Major research findings

5.2.1 Effects of poor debt financing

The major research findings were that financial risk and financial distress are the major effect of poor debt due to high leverage. Poor debt finance led to financial distress because the company was not able to honor its obligations. High finance costs are a result of poor debt financing because of the high interest burden which increase the interest expenses. Also, poor debt finance leads to cash flow problems as there will be free cash flow available to management due to the continuous borrowing and poor debt finance. Misinformed and poor debt managerial decisions was found as an effect of poor debt financing whereby managers decide on poor debt structuring practices. The researcher concluded that poor debt financing adversely affects financial performance through high interest costs, financial risk and distress, cash flow problems and poor debt managerial decisions.

5.2.2 How debt finance enhances financial performance

The major finding of this objective was that effective debt finance enhance financial performance because effective debt finance allows for cost reduction through easy administration due to optimizing concentration of ownership properly which reduce a portion of the finance costs. The researcher also found out that debt finance encourages profit retention which can be ploughed back into the organisation and enhance financial performance. The study also observed that with debt financing, there is the possibility of better financial planning and forecasting and it is made easier as the borrowed fund received and payments are fixed and also debt finance enhance expansion which increase the business and revenue source. The researcher was convinced that effective debt finance enhanced financial performance.

5.2.3 Challenges faced by debt financing at City of Mutare in improving financial performance.

The researcher determined that collateral is a challenge faced by debt finance in improving financial performance as it increase the risk of losing certain assets through pledging them as security to lenders. Another finding was that low debt coverage poses a challenge as it signifies a negative cash flow thus twice debt payments to net operating income, meaning that the debt coverage ratio is below 1 and the organisation is likely to operate below break-even. The company will have a low credit rating due to debt finance which challenges access to future funds of debt and loss of lenders. Lastly, debt finance is challenged in improving financial performance by lack of debt maintenance knowledge as it leads to wrong maintenance of the optimal debt ratio. The conclusion of the researcher was that the above challenges prohibits debt finance in improving financial performance.

5.2.4 To determine the relationship between debt finance and financial performance

Long term debt finance, short term debt finance and total debt finance(Debt finance) as independent variables were significant and negatively related to financial performance as measured by the dependent variable of financial performance(ROA). This means that increase in financial leverage has a negative effect on financial performance. The statistical level of significance was the probability of less than 50%. A positive standard coefficient showed a positive relationship between long term debt and financial performance and tangibility whereas a negative standard coefficient showed a negative relationship between short term debt, total debt and financial performance.

5.3 Recommendations

The company should adopt effective debt finance which encourage profit retention which can be used for future funding after repayment of the debt. This will help the company in innovating in other projects and debt finance is easy in funding the expansion of the business operations which in turn increase the revenue base of the company. The company should also practice better financial planning due to the fixed debt payments as they are able to budget for the debt payments and plan on what to do with the surplus available after paying the debt. This also helps the company to determine when the obligations are due so as to avoid missing on payments. In order to avoid financial distress, the company should be honoring its debt obligations, this is achieved if management do not adopt poor debt financing so that they are able to pay the debt obligations. Lastly, management should be knowledgeable in keeping an optimal debt ratio so as to maximize profits and should be able to assess the interest rates before taking the debt finance.

5.4 Areas for further studies

Further studies and attention should be deployed on the impact of debt finance on parastatals and local authorities but using a longer period of time in place of the three years used in the study.

5.5 Chapter Summary

This chapter briefly presented summaries of chapters one to four and went on to debate the major research findings and concluded them. In conclusion of the chapter the researcher gave recommendations to City of Mutare and gave areas which will need further studies for the future researches.

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APPENDICES

APPENDIX 1: INTERVIEW GUIDE

1. What are the effects of poor debt financing that adversely affect financial performance?
2. How does debt finance adopted by your organisation enhance financial performance?
3. What are the challenges faced by debt financing at your organisation improving financial performance?
4. What is the relationship between debt finance and financial performance?

APPENDIX 2: QUESTIONNAIRE

Dear Respondent

My name is Charles K Ruguwa (R144700M), an undergraduate student at Midlands State University doing Bachelor of Commerce Accounting Honors Degree. I am currently undertaking a research on “the impact of debt finance on financial performance: Case of City of Mutare” in fulfillment of my degree program. I do hereby request for your time in answering this questionnaire which is aimed at gathering views and knowledge for the study. It is with utmost pleasure to involve you in this research and your contributions will be of help. Information is only for academic purposes and confidentiality is maintained.

For 1-2 circle the correct answer

1.How much was the high finance costs annually as a result of poor debt financing within your organisation for the past 3 years

- i) Below \$10 000
- ii) Between \$10 000 and \$20 000
- iii) Between \$20 000 and \$30 000
- iv) Above \$30 000

2.What was the percentage of financial risk and financial distress as a result of poor debt financing that would adversely affect financial performance of your organisation.

- i) Below 20%

ii) Between 20% and 40%

iii) Between 41% and 60%

iv) Above 60%

From 3a-4d tick the correct box

3. The following are effects of poor debt financing.

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
a) Cash flow problems					
b) Poor managerial decisions					

4. The following are enhancement provided by debt finance

	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
a) Cost reduction and tax savings					
b) Profit retention					
c) Future planning and forecasting					
d) Expansion and revenue increase					

Do not indicate your name

From 5-8 give your opinion in the blank space below where applicable

5.How is collateral a challenge in improving financial performance of your organisation?

.....
.....
.....

6.What has been the effect of low debt coverage ratio in the improvement of the financial performance of your organisation?

.....
.....
.....

7.To what extend does limited flexibility and low credit rating a challenge in improving the financial performance of your organisation?

.....
.....
.....

8.How does lack of knowledge on debt finance maintenance affects the improvement of the financial performance of your organisation?

.....
.....

From 9-11 tick the correct box

9. Does long term debt influence ROA and Profitability?

Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree

10. Does short term debt have a bearing on the profitability of the organisation?

Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree

11. Does debt finance have a bearing on tangibility?

Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree

