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Midlands State University



FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

AN INVESTIGATION INTO THE IMPACT OF LACK OF FUNDING ON

OPERATIONAL PERFORMANCE

SUBMITTED BY

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BACHELOR OF COMMERCE ACCOUNTING HONOURS DEGREE AT MIDLANDS
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RELEASE FORM

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DEDICATION

To GOD thank you for the grace.

To my wonderful family with love.

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I would like to thank his Majesty the Lord God Almighty for his faithfulness over the years up until the writing of this dissertation. I express my gratitude to my supervisor Mr. R. K. Noko for his continued support, encouragement, tolerance, patience and assistance on the writing of the project. I'm indebted to all my lecturers in the Accounting Department not forgetting my Chairperson MrMvura for the knowledge imparted in me over the period. I do not forget my friends Thandeka, Dionie, Tafadzwa and Tariro for their support, love and joy as well as the inspiration they gave me while at MSU.

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ABSTRACT

A number of concepts revolve around excellent operations in the going concern of organizations. The concept of adequate capital to fund operations depends on the obtainable funds available to an entity is one vital concept for effective and efficient operations. Jameson. K (2009) brings out an argument that it is capital that provides businesses the ability to progress as well as maintain a competitive advantage. The need for funds makes progress a virtue in the day to day operations. Funds are generated either internally (profits) or externally that is borrowing privately form banks or through stock issue. The aim of the study of this research is to bring out the effect in lack of funding on operations resulting in poor financial performance. Conclusions gathered as support of the thesis was obtained through findings and experience. Literature review was on the acknowledgement of other scholar's researches to bring out the net concept of funding. On presentation and analysis of data the researcher used graphs and charts the use of the mode mean and standard deviation was used on data analysis. The results showed that there is every need for a clear funding policy in organizations; funds for Sable are needed to fund the production system and working capital. The company needs to review internal funding by increasing sales which is attained through increased share market and increased volumes. Considerations should be taken on the implementation of long term borrowing as a source of funding.

TABLE OF CONTENTS

RELEASE FORM	i
APPROVAL FORM.....	ii
DEDICATION	iii
ACKNOWLEDGEMENTS	iv
ABSTRACT	v
TABLE OF CONTENTS	vi
LIST OF TABLES.....	ix
LIST OF FIGS	x
CHAPTER ONE.....	1
1.0 Chapter Introduction.....	1
1.1 Background of Study.....	1
1.2 Problem Statement.....	3
1.3 Research Objectives	4
1.4 Research Questions.....	4
1.5Significance of the Study;.....	4
1.5.1To the researcher	4
1.5.2 To Midlands State University.....	5
1.5.3 To Sable Chemical Industries.....	5
1.6 Delimitations of the Study	5
1.7 Theoretical/Conceptual Framework	6
1.8 Limitation	6
1.9 Definition of Terms	7
1.10 Chapter Summary	7
CHAPTER TWO.....	8
LITERAUTURE REVIEW	8
2.0 Introduction	8
2.1 Identify the Funding Policy	8
2.1.1 Theoretical Framework for Funding.....	8
2.1.2 Categories of Funding.....	9
2.1.3 Short Term Financing.....	9
2.1.4 Long Term Financing	10
2.1.5 What is a funding gap.....	10
2.1.6 Sources of funding/funds.....	11
2.1.7 Internal vs external funding	12
2.1.8 Funding Policy.....	12

2.2 Identify strategy behind funding profitability and recapitalization for Sable	14
2.2.1 Profitability	15
2.2.2 Recapitalization	15
2.2.3 Controls on the implementation of strategies and policies	16
2.3 Evaluate the cost of Capital in organization	17
2.3.1 Cost of capital	17
2.3.2 Debt cost of capital	18
2.4 Investors and their investment	18
2.4.1 Investors; Lenders of money	19
2.5.0 Evaluate the effect of production system on operational performance	20
2.5.1 Production system operations	20
2.6 Chapter Summary	21
CHAPTER THREE.....	22
3.0 Introduction	22
3.1 Research methodology.....	22
3.2 Research design	22
3.2.1 Descriptive method	23
3.3 Case Study	24
3.4 Population.....	25
3.5 Sample.....	25
3.6 Sampling techniques.....	25
3.6.1 Probability sample	26
3.6.2 Non –probability sampling	26
3.7 Primary data collection	26
3.8 Questionnaires	26
3.9 Likert scale	28
3.10 Interviews	28
3.11 Piloting the research.	29
3.12 Data Analysis.....	29
3.13 Chapter conclusion	30
CHAPTER FOUR	31
4.0 Introduction	31
4.1 Questionnaire Response Rate.	31
4.2 Response rate of face to face interviews.....	32
4.3 Background Information.....	32
4.4 Response to questionnaire.	33
4.5 Chapter summary.....	45
CHAPTER FIVE	46
5.0 Introduction	46

5.1 Chapter Summaries.....	46
5.2 Major Findings	47
5.3 Summary Achievements of Research Objective.....	47
5.4 Recommendations	47
5.5 Areas of further study	48
5.6 Summary.....	48
REFERENCES	49
APPENDIX A.....	51
APPENDIX B.....	52
APPENDIX C.....	55

LISTOFTABLES

Table1.1illustrating production costs for 2010-2013	2
Table 1.2 illustrating T.A Holdings Agrochemicals section	3
Table 3.2 Rating of Likert scale	26
Table 3.4 Piloting Response	27
Table 4.1 showing response rate to questionnaire	29
Table4.2interview response	30
Table4.3Duration of Employee at the Company	30
Table4.4 Highest Qualifications Attained	31
Table 4.1 funding policy at Sable	31
Table 4.2 funding policy communicate to employees	33
Table 4.3 Company dependence on external funds	33
Table 4.4 production system and production cost	34
Table 4.5 Production cost has affected company's financial performance	35

LIST OF FIGS

Fig 3.5.1 Sample size	24
Fig 4.0 Duration of employees at the company	31
Fig 4.1 Funding Policy at Sable	32
Fig 4.2 Company's dependence on external funds	34
Fig 4.3 Production system and production cost	35
Fig 4.4 Production cost has affected company's financial performance	36
Fig 4.5 Capital needs	37
Fig 4.6 Cost of capital	37
Fig 4.7 Risk associated with funding	39
Fig 4.8 Controls to cater for funding risks	40

CHAPTER ONE

1.0 Chapter Introduction

This chapter seeks to give a detailed analysis on the subject under research. It shall consist of background of the study, problem statement , research objectives, main research question, research questions/hypothesis, the significant of the study, delimitations, time budget and financial budget, summary of literature review, proposed research methodology, limitations of the research and finally the chapter summary.

1.1 Background of Study

Sable Chemicals is a sole manufacturer of ammonium nitrate a product found vital in the economy of Zimbabwe. The company's main share holder is T/A Holdings holding up to 51% of the issued share capital. As it stands T/A holdings is the only liquid investor for Sable Chemicals and has used about US\$40million over the past few years in refurbishing the electrolysis plant for Sable. It has been evident that T/A Holdings are the major source of fund. Over the years interest of the shareholder has been diverted to other agro businesses that T/A Holdings has invested in, as the company(Sable) has been having a decline in all its operational performance. According to T/A Holdings annual report relating to Sable "the company's profitability has been greatly compromised by the high tariff charged by ZESA which has resulted in high production cost." This is mainly attributable to the firms main cost center the electrolysis plant which had 4 electrolytes working instead of 14. This has resulted in an increase in the production cost as cited below:

Table 1.1 illustrating production costs for the period 2010-2013

Details	2013(USD) \$	2012(USD)\$	2011(USD) \$	2010 (USD) \$
Electricity	9680783	9 306 420	6 195 298	5 995 298
Imported ammonia	1199 788	6 439 126	6 439 126	6 239 126
Salaries and wages	3 250 361	3 456 937	3 508 909	4 108 909
Employment costs	1 765 365	2 457 050	2 457 050	2 457 050
Interest paid	1 126 815	1 325 542	1 325 542	1 121 542
Depreciation	2 058 127	2 356 590	2 276 908	2 076 908
Repairs and maintenance	2 864 865	3 254 123	2 484 851	2 284 851
Other production costs	415 439	148 376	235 267	236 620

Source: Sable Chemicals YTD Statement of Profit or Loss

It has been the board's intention to eliminate the production of ammonia and depend on full importation of the ammonia, a main product required in the production of the ammonium nitrate. Importations have been affected by the global price increase of ammonia which the company could not afford. Strategies like completely shutting down of the electrolysis and divert into the coal gasification method for the production of A.N were prompted but its taking long for the implementation of the ideas. Other ideas like opening methane plant for the production of electricity which will be used as a strategy to minimize production cost caused by the electrolysis plant also came up. Regardless of how sound the strategies are, without funding and proper implementation it could all be in vain. In relation to T/A Holding annual report in 2011, it clearly states out that "the lack of funding regarding the amount of credit needed to capacitate Sable require both technical and investment partners together with long term lines of credit". This has been affected by investor attitude towards Sable which the researcher would like to describe as lot skeptical. To date not any of the strategies has been implemented since years back when they were proposed. The company has depended on a government subsidy on electricity bills, but the question is for how long?

The company's balance sheet has been shrinking as cited by the Management Accountant Mr. Makoni in a staff meeting (verbal). This is mainly caused by the decrease in activity,

deteriorating property plant and equipment which is over 20 years old and replacement parts are not available in the local market thus the company has to import and other reasons which shall be looked into further in this study. Followed by the decline in operational performance the company has recorded a series of losses shown in the Income Statement of T/A Holding as they were being absorbed in the group accounts. The report gives evidence that because of insufficient working capital, the profits made in 2012 were not enough to negate losses made in the past years.

Table 1.2 illustrating T/A Holdings, Agrochemicals section

Income Statement

	2013	2012	2011
Share of associate profit/(losses)	(1 460 000)	(1 260 000)	(114 000)
Sable chemicals			
Capacity Utilization	20%	25%	34%
Average electrolytes	7	8	9
Effective Electrolytes	4	6	6
Ammonia production-tonnes	20 159	22 069	28 856
Ammonia imported	6 800	6 969	10 836

Source; T/A holdings annual reports

It has been the auditors concern regarding the operations of the company following the trend of losses; they have suggested that the company should consider liquidation in their 2013 audit report after the yearend audit.

1.2 Problem Statement

The organization has not been able to progress in line with its mission statement which is to be the leading manufacturer of ammonium nitrate in Southern Africa, this is followed by a decline in operational performance, which has been evidence with a trend of losses and lack of funding internally and externally. Efforts have been made management and T/A Holdings which is the

major shareholder to look for ways to recapitalize the business. Financial crisis has been to fund the business both for the operations and personnel payment. This has prompted the researcher to research on the impact of lack of funding on operational performance in business organizations and how it leads to poor performance.

1.3 Research Objectives

- Identify the funding policy for Sable if any.
- Identify the major strategy for sable in relation to profitability and recapitalization
- Evaluate the cost of capital
- Asses investors attitude towards investments
- Assess the effect of production system on financial performance

1.4 Research Questions

- Is there an existing funding policy for Sable?
- In trying to increase profitability and recapitalization what has been the strategy behind?
- Does cost of debt has an implication on operational performance, if so how?
- What considerations do investors take into consideration before investment and are these factors evident in Sable?
- Has the current production system affected Sables' operations and in what way?

1.5Significance of the Study;

1.5.1To the researcher

This research shall save as a basis of assessment of the researcher's ability to apply and her understanding of organizational system in relation to the problem under study. This shall help the researcher to gain a comprehensively understanding of the practical applications of accounting information at Sable Chemicals or to any other related companies.

1.5.2 To Midlands State University

It is the researchers hope that this research shall be used for further analysis and critics by students not only at MSU but as well as internationally for arguments and additions were possible. Critics can also be applied by other scholars based on this research and new ideas can be developed thus also involves development of new concepts based on the problem under research.

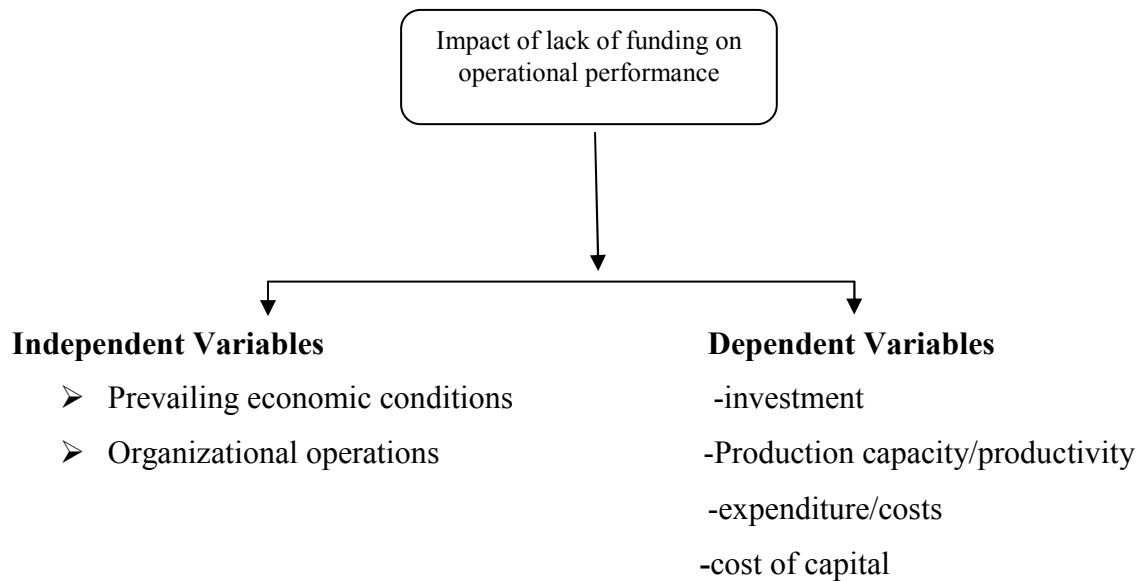
1.5.3 To Sable Chemical Industries

It's the researcher's hope that the company shall benefit from this research. The research is based on a problem that the company is facing as perceived by the researcher. The recommendation which shall be suggested is to the hope that the company will evaluate its performance and consider them.

1.6 Delimitations of the Study

The research shall be based on the accounting information and operations of Sable Chemical Industries Limited which is located in Kwekwe about 15km from the main town. The period under the research shall be from 2010 to 2013. It shall focus on the production and the Finance departments of the company's operations. In gathering the information the researcher used qualitative method of data collection.

1.7 Theoretical/Conceptual Framework



These are the factors affecting funding, the dependant variables are influenced by the independent variables. For instance investment is dependent o the economic environment and the organization ability to generate more capital to increase investor’s wealth. The production capacity/productivity is the factors that results in operations for manufacturing entities. Without productivity there is little operation with little operations this increases variable cost and thus the marginal income is also affected. This can lead to shutdown of firms. Manufacturing operations are usually capital intensive.

1.8 Limitation

In partaking the research the researcher met a few hiccups and challenges to produce a well thoroughly research. The factors affected the quality of the content of the research and the speed to finish the research on time. Though every essential part needed was covered the following where some of the challenges

- ❖ Resources where scarce as the researcher had to always be in contact with the company management for information required and in some instances the researcher had to visit the company.

- ❖ Time allocations between other modules and the research as more time was demanded on the research.
- ❖ Finance- to cater for the costs of transport, stationery, meals, printing and virus infections.

1.9 Definition of Terms

Funding gap- it refers to the capital deficit that usually arise when the corporate fails to meet the financial needs of the organization.

Investment Strategy-a set of rules, behaviors or procedures, designed to guide an investor's selection of an investment portfolio.

Funding- is the act e of providing resources usually in the form of money or other valuables such as effort, time for a project business or any private or public institution.

Policy-is a principle or rule to guide decision and achieve rational outcome.

Short term loans- are loans or funds in which borrowers can receive from lenders such as banks repayment of which is usually of a period of not more than one year.

Long term loans- funds that are made available by lenders of capital to the borrowers. They usually characterized by high interest repayment is for more than one year.

AN- ammonium nitrate.

1.10 Chapter Summary

This chapter served as a highlighter, which defined the parameters of the issues to be addressed and evaluated under the research. In this chapter the researcher focused on the background of the study, statement of problem, objectives of the research, the main research questions, sub research questions, importance of the study, limitation as well delimitations of the study. A detailed analysis of the research shall be looked into in the following chapters.

CHAPTER TWO LITERATURE REVIEW

2.0 Introduction

This chapter gives an analytical overview on recent and historical significant research studies made by other researchers. It views all the necessary information that will act as basis for the thesis under study, which is the impact of lack of funding on operational performance. It will give the theoretical framework under the concept of funding, the concept of profitability and recapitalization, the need for funds, cost of capital and its implications as well investment in the eyes of the investor further more a detailed analysis of the high production costs caused by a production system and the implications on performance. The chapter examines and gives an analysis on all relevant research opinions and conclusions made by other authors in the same study area with an objective of bringing out a conclusion on any other gaps.

2.1 Identify the Funding Policy

2.1.1 Theoretical Framework for Funding

Richard P (2009) he defines funding as cash and liquidity management, short term and long term financing and cash forecasting. Cash and liquidity can be viewed as those factors that are used to measure the operations of an entity and thus they require management. Whether its short term finance or long term finance, the decision lies with management to make reasonable decisions on how much should an entity raise in a period and from what source. The need to raise funds externally should be considered if an entity is unable to raise the funds internally. The type of funding can also be determined by the project that is need of the financing.

www.ask.com/question (3/21/2014; 5:11pm)defines, “funding is the act of providing resources usually in the form of money (financing), or other values such as effort or time (sweaty equity) for a project or business or other private or public institutions.” As a rule funding is linked with fundraising activities this cannot always mean money but all that is required to make a project success. For instance without the required knowledge and expertise organizations will not survive to achieve the ultimate objective of wealth maximization for stock holders.

Kulsretha N (2009) says funding is a phrase frequently adopted to refer to financial cycles to convey dissimilar meanings typically it is used to refer to cash, working capital and other

financial resources. Upon funding all the resources whether financial or equity they are channeled to activities in production. The aim of funding is to maximize owners' wealth and also expand the business usually referred to as growth. Growth, which can be attained via a number of ways for example expansion. Since funds are used for expansion and mergers and other product modifications that assist organization to win its competitive market. For Sable funds are needed to capacitate the manufacturing plant to maintain its optimum production capacity for it to survive in the market this is because the cost related to the plant are causing poor financial result as well as fund the working capital. Funding of the production system would help in the reduction of maintenance and production costs. The major cost center which is the electricity has largely affected the profitability of the organization.

Jameson K (2009), he sites that the availability of funds offer businesses the capital to progress in the operation both internally and external. Funds give the businesses the ability to move from small enterprises to large entities. Well managed funds give firms the ability to out run its competitors by upgrading with the environment as well as technology and thus increase owner wealth maximization and survival.

There are various types of different funds that are available to all the organizational sizes, the type of funding suit differently on each organization depending on the internal operations. It is vital for management evaluate the type of funding that suit the operations after taking into consideration the merits and demerits of such funding.

2.1.2 Categories of Funding

Funds take a number of forms but fall under three most common categories of funding which debt and equity financing as well as internally generated funds. The types of debt funding include bonds, overdrafts and loans, on equity funding there is ordinary and preference shares. In debt and equity financing we find that we have short term and long term financing. Internally generated funds are through revenues and other income generated.

2.1.3 Short Term Financing

Ross.W.J (2010), "short term financing is primarily concerned with the analysis of decisions that affect the current asset and current liabilities." Short term financing typically are funds that

revolves on the timing of cash flows within a period of not more than one year. Funds that usually affect the current liabilities shall fall under short term. Short funds can be viewed as those funds that are directed to the operations of a firm and not directly to capital expenditure items.

Short term funds tend to be less expensive than the long term funding. Gitman (2006) argues that long term funds allow firms to lock its cost of capital over a period of time, this gives a firm time to invest and as well generate profit to match with the cost at the end have favorable reportable profits. With short term funds the firm might as well be exposing itself to seasonal peaks of interests that it may not be able to obtain funds to cover the funds. Funds that are provided with short term funding are used usually on the day to day operations like buying of raw materials in production of stock that in anticipation will bring cash in less than one year.

2.1.4 Long Term Financing

When it comes to long term financing this is a method of funding usually adopted by large firms who are able to secure such a long term commitment. This is usually because of the act that banks and money lenders institutions that require collateral security to secure the loans before lending of such funds. Weil.S.F (2010) brings out the idea that firms usually use long term borrowing or funds to finance long term assets such as property plant and equipment or they can use the funds provided directly or indirectly with shareholders. He argues that with long term debt it may increase the firm's risk of default and bankruptcy. This is due to the fact that a greater capital structure that is financed by long term debt may lead the firm in difficulties in making payments when required. Long term commitments and acquiring of property plant and equipment is done through long term borrowings or that capital provided directly from shareholders. Sable mainly depend on internal funds and short debt and this is not ideal for a company running the most biggest plant in the world which require huge capital injections and long term credits.

2.1.5 What is a funding gap

The amount of money needed to fund the ongoing operations or future development of a business or project that is not currently provided by cash, equity or debt. Funding gaps can be

covered by investment from venture capital or angel investors, equity sales, or through debt offerings and bank loans (www.investopedia.com 22/08/2011).

2.1.6 Sources of funding/funds

According to www.investopedia.com (3/21/2014:5.23pm), there are a number of funds available for firms these include:

- a) Organizations make profits, this an internal way of funding and achieved when firms sell their product at a price more than the cost of production. This readily available method of rising funds and it's known to be a method that generates the most income.
- b) "Like individuals companies can borrow money privately through banks or publicly through debt issue. The drawback to borrowing is the interest that must be paid to the lender. This includes both long and short term funds."
- c) "A company can generate money by selling a part of itself in the form of shares to investors which is known as equity funding. The benefit is that investors do not require interest payment like bondholders do. He drew back is that future profits are dividend among all share holders."

Philip J and Alan M (2011), they also give other sources of finance as follows

- a) " personal loans – which include the individual savings ,investments which include stocks and bonds, credit cards and home equity loans
- b) Equity financing- which include company retained earnings and using fixed assets of a company as collateral to obtain loans
- c) Venture capitalists- normally provide financing at the expansion and later stages of business development
- d) Grants – are money provided to business and other entities that don't have to be repaid as long as the grantee performs the services for which the grant was approved for."

ZviBodie and Robert C (2009:410) give subsidy as another source of financing for entities. They say "sometimes subsidies are available for a particular form of financing thus making it advantageous for firms to tilt therecapital structure in e debt that direction. An example would be when a government body offers to guarantee to firm that invested in an economically depressed area." This is evident in the current research case study of Sable Chemicals, following the

economical condition in Zimbabwe regarding the availability of electricity, the electrolysis plant consumes more power and power cuts and load shedding are not ideal for the operations. This has lead to the company to rely on a subsidy offered by the government through ZESA with the agreement that it will give first priority of the ammonium nitrate to the government.

Gitman (2012) outlines the four basic sources of long term finance and he argues that not all firms will use all the sources of funding but most firms will have some mix of funds from these sources from their capital structures. A company need to weigh up the best source of funding as high levels of debt can get a company into trouble on the other hand if a company ignores borrowing might be missing expansion prospects if it doesn't use money that it can borrow.

2.1.7 Internal vs external funding

Banks and investors are the sources and suppliers of funds. They are external suppliers of funds. Funds supplied by bankers are characterized by the fact they increase the debt of an entity. ZviBodie and Robert C Merton (2009; 399), "outside sources of funding require lot of time and are complicated. Usually the outside providers of funds are likely to want to see a defaulted analysis of the plan for the use of funds. They want to be convinced that the project will produce sufficient future cash flow to justify the expenditure."

Internal source of funds are generally arises from the operations they include sources such as retained earnings, accrued wages accounts receivables. In relation to Sable the company has had series of loses and this rules out profits in sourcing of funds. The company has couple of distributors on which the product is sold to. Payment by the debtors is not as guaranteed and sometimes it's not as scheduled. In an option the company could widen its distributors and cancel all the unprofitable contracts that are existing between the manufacturer and the distributors who are customers.

2.1.8 Funding Policy

Richard.S (2002), says a policy refers to certain rules and procedures that must be adhered to, for example you put your shoes before you tie your laces. These rules can be viewed as control measures to firms operations. This guide management in staying focused on the firm's short term to long term objectives.

www.advfn.com-moneywords-term, “financial policy is a criteria describing a corporation choices regarding its debt/equity mix, currencies of denomination, maturity structure, method of financing investment projects and hedging decisions with a goal of maximizing the values of the firm to some set of stockholders.” According to Jonathan.B (2011;876) There are two types of funding policies that firms can apply. The aggressive finance policy and the conservative finance policy:

a) The aggressive Finance policy

The financing of all permanent working capital using short debt is what is termed as aggressive financing. As the matching principle is applied by many companies this has an effect in the long run of minimizing transaction costs. But when a company decides to funds its permanent working capital with short term finance, when the short term loan becomes due the firm will have to negotiate a new loan and this loan will carry its transactional cost and interest rate prevailing in that market. By relying on short term funding the company might be exposing itself to funding risk. Jonathan B and Peter DeMarzo (2011:125) they argue that “ short term debt may appear cheaper than long term debt however the benefit of the lower of the rate from short term debt is offset by the risk that firms will have to refinance the debt in the future at a higher rate.”

Advantages of such a funding are

- Such a policy is beneficial in market imperfections
- The value of short term debt is less sensitive to a firm credit quality than long term debt
- It has lower agency
- It can benefit share holders

b) Conservative finance policy

With such a policy a firm would use long term sources to finance permanent working capital and some of its seasonal needs. As the name suggest it is conservative hence it reduces funding risk

and this is the risk that may result in the firm incurring some future distress should the firm fail to refinance its debt on time.

Most firms adopt the conservative risk as the funding of permanent working capital requires large sums of money. The funding policy that Sable adopts is not apparent as the firm has a standing amount of long term debts from a number of banks and at the same time the company is trying to fund the operational activities with short term debt like creditors. Pik R and Neale B (2009) sites out that the variability of sales in firms will determine the funding requirements. This is done by looking at how constant or cyclic or seasonal are the sales. Regardless of a permanent funding scheme, a firm that has seasonal sales will require additional funding on top of the permanent funding. The internal funding for Sable can be described as seasonal as the sales are higher during agricultural season when ammonium nitrate demand is at its peak. Other products produced such as oxygen and demineralised water demand is very low as most the companies that used to buy these products were affected by the prevailing economic condition and have since closed down.

2.2 Identify strategy behind funding profitability and recapitalization for Sable

Fitzroy P and Hurbert J (2005:31) they define it as, “a strategy is about a firm’s relationship with the environment and developing capabilities and competences to enable it prosper.” They further on and say they are those decisions that affect the long term operations of an organization. Usually such decisions require much of the company’s resources and they take long to implement. Usually the decision is mainly left in the decision making of directors of a firm or senior management and there are instances and maybe necessary to involve middle management. The major rational behind making strategies is to create greater value for the firm and its stock holders. “A strategy is not just a good idea but it is making that idea happen.” Johnson G. (2011) sites out that there are three types of strategies that is

- “Corporate strategy which refers to all decisions with the overall scope of the organization and they add value the entity as a whole.”
- “Business level strategy which is about the competitiveness of individual business In the market”

- “Operational strategies are concerned with the portal of the corporate and business strategies effectively in terms of the allocation of resources and related process.”

The decision that usually involves profitability and recapitalization of a business are usually corporate as they affect the whole organization. Sable strategy making process lies with the main shareholders and the board and implementation is by the management. Strategies are implemented to maintain competition as well for the going concern of an organization.

2.2.1 Profitability

Profit is the absolute number of the earned amount of an investment. Profit can be viewed from two angles there is accounting profit which is shown in the financial statements after deducting all expenses taxes and interest and entrepreneurial profit which is which is based on economical concepts. Phillip J and Alan M Marks (2011:125) defines profitability as “our return on investment and is related to the concept of efficiency than effectiveness.” He says it is that ratio that is obtained by dividing net profit by total assets. In the owners of the business profitability is the efficiency use of asset in the generation of profits. Firms need to have to have favorable ratio of their profitability as this can affect the investor’s potential and creditor’s willingness to supply to such inefficient operational business. Profitability is affected by inefficiency of production and other operations. Proper funding can make it attainable for organizations to uproot their profitability.

2.2.2 Recapitalization

According to www.instopedia.com (03/28/2014;19:08) recapitalization is “Restructuring a company's debt and equity mixture, most often with the aim of making a company's capital structure more stable. Essentially, the process involves the exchange of one form of financing for another, such as removing preferred shares from the company's capital structure and replacing them with bonds”. It might be found of need to recapitalize a business when defending a organization against hostile takeovers, minimizing taxes or to implement an exit strategy for venture capitalists.

“Companies often want to diversify their debt-to-equity ratio to improve liquidity. A good example is when a company issues stock in order to buy back debt securities, thus increasing its proportion of equity capital as compared to its debt capital. Generally speaking, when a company's debt decreases in proportion to its equity, it has lower leverage and thus, *ceteris paribus*, its earnings per share should decrease following the change, however its shares would be incrementally less risky, since the company's shareholders have fewer debt obligations which must be paid by the company before shareholders can see profits.” Sable has made attempts to recapitalize the business by injecting money on the plant in trying to decrease the dependence of borrowing money by scaling up production. T/A Holdings the major company shareholder has injected millions into the company's operations over the years. Overly the debt of the company has exceeded the total assets of the company. The overall effect of the operation has been because of the shrinking statement of financial position.

2.2.3 Controls on the implementation of strategies and policies

According to www.strategic-control-24xls.com (3/25/2014;15.34), controls are designed to review whether the entire strategy should be changed in light of the relating events and results in line with incremental steps and proceedings that implemented the entire strategy. It sights that there are two types of implementation control;

- Monitoring strategic thrust

One way is to agree early in the planning process on which thrust are critical factors in the success of the strategy and the policy. Put in another word this means agreeing on the first things that should be of high priority to the organization. Secondly each stage should have an authorized person who gives a go ahead and decline any ideas that are found not to suit in.

- Milestone view

This a significant course of action as it involve the re-examination of the strategy and policy advising on the continuing or refocusing the direction of the company.

Upon the implementation process it should be well communicated with all the staff. Jokomba H.D (2014:11) “before any controls measures can be put in place an organization must make sure that a friendly environment for the implementation. This can be through

- Development of good attitude to the controls envisaged by both management and employees
- Creation of good organizational structure
- Segregation of duties”

2.3 Evaluate the cost of Capital in organization

2.3.1 Cost of capital

Lawrence J G and Chad J Z (2012; 358) defines “cost of capital represents the firms cost of financing and is the minimum rate of return that the project must earn to increase firms value.” investments with a higher rate of return that is above cost of capital will increase the firms value and are much preferred the same applies to those projects with a high cost of capital than the return expected. The cost of capital also measures the relationship between a firm’s long term investment decision and the firms owners wealth which is determined market value of their shares. According to Elda Du Toitetal,(2010) the cost of capital are those cost that are incurred by a firm in raising its capital. To further argue that capital refers to finance and funds. The cost of capital does not refer to transaction cost but the returns that the provider of capital will need from the finance provided. Elda (2010) points out that they are three categories of cost of capital

- Cost of ordinary shareholders’ equity
- Cost of preference shares
- Cost of debt

In an organization like Sable Chemicals the main evident of cost of capital is mostly the cost of debt. The company has a number of both long and short term loans from different banks. Regardless of the available costs the company still is in need of long term lines of credit and committed patient investors. The implementation the coal gasification as an alternative to the production of ammonium nitrate is a strategy that will take number of years as there are also procedural environmental assessments. Cost of debt also affect the profits as they increase financial expenses.

2.3.2 Debt cost of capital

Jonathan B (2011) referred to debt cost of capital as that as that cost of capital that a firm must pay on its debt. The information of cost of capital is of importance to the firm and its investors. Elda Du Toit,(2010;319) defines it as “the return that company lenders demand on new debt. Put another way the cost of debt is the interest rate that the company must pay on any new debt issue.” cost of capital is linked to the capital budgeting. Firms can use the cost of capital to evaluate their performance as a benchmark and measure, according to [www.emeraldinsight.com/1536\(20/04/2014; 2;07pm\)](http://www.emeraldinsight.com/1536(20/04/2014; 2;07pm)) , “inadequate evaluation tools risk the possibility of applying scarce resources to areas, which promote a return than the cost of capital. This ultimately will result in a destruction of value.” Therefore it is essential that firms make good estimate of their cost of capital.

The increased number of debt with less revenue has lead to the company failing to meet some of its expenses such that it has gone on to retrench its staff and have continued production which is below capacity. The cash flows for the operation are cyclic as the main product sales are during a certain period of time. ZviBodie and Robert C (2009:410) argues that “as the portion of debt in firms increase so does the likelihood that it might default on that debt should future cash flows be low. Firms that are in imminent danger of defaulting on their debt are said to be in financial distress. In such cases firms incur significant cost that reduce the firms’ total value below what it would be if there was no debt. These costs include managers avoiding bankruptcy fees paid to lawyers specializing in bankruptcy proceedings, and business lost to customers, suppliers, employees scared of the possibility of liquidation.” Financial distress has lead to the auditors for Sable suggest that the company liquidate as the operations are getting down by the year, due to financial limitations, which had greatly compromised the ageing plant’s operational efficiency. Inefficiency always result in lost capital in high cost and less revenue high cost of the electricity which has become the major cost center has lead to losses including other financial costs as well as maintenance costs.

2.4 Investors and their investment

According to Philip J and Alan M “investors are potential owners of business and are looking for growth and an increase in company equity so that they can increase their return on equity”. Their expectation is sorely the devotion of the directors and management to invest their time in the

project that has the greatest return and usually they are the most risky project. Investors consist of bankers and lenders and stockholders. Bankers and lenders expect a return in the form of interest charged. Stockholders want their dividends at the end of the period.

Berk.J and Dermazo P (2011) says individual investors are not full time traders hence they give less consideration and spend less time on their investment decisions. Rather their attention and investment decision might be based on the media. The published news and stories and sometimes other events, for instant what could be transpiring in that company. For instant the news and local media has off late published a lot of operational downcast at Sable. If investors such as lenders hear of such stories their commitment to such operational performance will deter their investment.

2.4.1 Investors; Lenders of money

The lenders of money usually consist of banks and other money markets. Upon lending money to borrowers they consider a number of things. According to www.smallbusiness.chron.com (3/28/2014; 18:00)“The bank will probably review its overall relationship with the company, including deposits, investments and other services. Credit analysts will review financial statements and obtain reports from outside credit agencies and other sources. If the resulting information is positive and meets the bank's credit standards, the bank will be inclined to approve the request.” The lenders may require the following as well

- Credit rating
- Financial standing which include the annual Financial Statements for comparison with previous years
- Available collateral to secure the loan.
- Management guarantee – the bank will have all the executive management to fill out a form in addition to the collateral the management guarantee will act as assurance the management will still be around while the loan is still enforce
- Bank relationship of sable chemicals and the national banks

Following the dependence of borrowing money from the banks to finance the operations of the company the company is increasing its funding risk. Some of the customer in which the company

has contracts with they have since stopped thus reducing the company sales and revenue. Running out of internal revenue has lead the company in failing to meet the interest payment on repayments of the loan. With such a record this can affect their relationship with banks.

2.5.0 Evaluate the effect of production system on operational performance

2.5.1 Production system operations

According to Bellgran M and Safsten K (2004) “Effective and robust production systems are required in the competitive environment of today’s manufacturing companies. Creating system robustness should be made during the design phase and not during operation when most system parameters already are set. Each production system is the result of a unique and context dependent development process, and its comprising design and evaluation activities are most vital for system performance” the production plant for Sable Chemicals was designed in 1972 and that is when the production started. It was designed in a way that suits the prevailing economical conditions and technology. As it stands the company is still operating the largest electrolysis plant in the world. The design of the system is such that there is not much room for development but rather shut down the plant and adopt new technological ways of producing the product. Running such a plant is now expensive and thus making it difficult for the company to compete with the competitors.

They further argue that, “The business environment where companies compete has undergone a tremendous change during the past decades. Many companies are competitors in a global marketplace, bringing new possibilities but also new requirements. The continuously increasing market globalization has many consequences for the manufacturing companies” Southern Africa is a landlocked region making agriculture and mining the global competitiveness of countries in it. Sable Chemicals product is vital to sustainable economical growth of the agricultural sector. The company has the opportunity to supply globally (Southern African countries) and locally as it was used in the early and late 19s. The production system has led the company down in terms of the capacity as well as retrenched some of its staff .

The formation of sustainable information should be considered a significant aspect when improving the preconditions for strong production. The knowledge and familiarity by those persons scheming and evaluating production systems are vital for their likelihood to create strong

production systems. It definitely affects the technique the task is approached and whether the strength is considered a goal restriction when scheming on organizational levels Belgran (2004).

2.6 Chapter Summary

This chapter looked at the different aspect under the impact of lack of funding on operational performance. The researcher acknowledged the work of other authors as support to thesis under study. The next chapter will look at the research methodology in which the data shall be collected thereafter.

CHAPTER THREE

3.0 Introduction

This chapter focuses on the research methodology used to collect data in support and descriptive of the thesis under study. It is going to give an insight on the techniques, methods and type of research are used to gather data on the topic of the investigation of poor financial performance resulting from lack of funding on operational performance.

3.1 Research methodology

Research is a term which is used to describe a number of activities; Walliman N (2005) describes it as collecting of large amounts of information converting it into meaningful theories and produce information that is capable of making a difference. In simple terms these can refer to the procedures and methods that can be used in the collection of data. Walliman brings out the categories of the research methodology and sites out the five major one which are “experimental, survey, archival analysis, historical and case study.” For the purposes of this research a case study was adopted and the nature and descriptive of the method is discussed further in this chapter.

3.2 Research design

In conducting a research several types of research design are open but the research type suit differently to the data to be gathered. www.nyu.edu (04/04/2014;13:17) “A research design is not just a work plan. A work plan details what has to be done to complete the project but the work plan will flow from the project's research design. The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible.” Research designs can be qualitative or quantitative; the rationale of research design is to decrease the uncertainty of much research evidence. The aim of research design is to put together available data for the compilation of significant information with minimum costs of effort, time and money.

3.2.1 Descriptive method

This method attempt to illustrate methodically a situation, quandary, event, service or program, or provides information concerning , say, existing conditions of a community , company, or describes attitudes towards issues observed. Gray D E (2009) says the descriptive methods aim is to give a insight about the events as the naturally occurs. It also involves some comparison of data against a given standard. He argues that “a descriptive study seeks to draw a picture of a situation, person or event or show how things are related to each other.”

Descriptive method mainly focuses observation as a way of data collection it adopts a pattern of establishing what is the norm, the reoccurrence of certain conditions happening under the same environment Wallen N (2005).

Walliman N (2005) argues that instead of analyzing records and artifacts with descriptive methods observations are a means of data collection, “it attempts to examine situations in order to establish what is the norm that is what can be predicted too happen again under the same circumstances.” Observation can be in different forms depending on the type of data to be collected and the group of people in which the data will be sought from. It can be through interviewing people, use of questionnaires, visual records made and other recordings necessary. The most crucial part of this research is the recording of the data found and represent it in a systematic way.

Descriptive method can be qualitative and quantitative research designs. This research will mainly adopt the qualitative research design of data collection.

Qualitative research is a natural approach that seeks to gain an in depth analysis of a situation with a circumference.

Advantages

- The method is less costly and suits well into a well small area of concentration.
- The methods used for data collection eg interviews allows the researcher to identify loopholes and enhance her research and allows for collection of raw data.
- The method can be used even when little is known about a certain area

Disadvantages

- The use of questionnaires may promote distortion of data
- Data gathered maybe biased, bias cannot be entirely eliminated precautions can be made on gathering data like triangulation when conducting interviews and increasing a sample.

3.3 Case Study

As defined by the University of Melbourne (2010:1) a case study is a “detailed intensive study of a unit, such as a corporation or a corporate division that stresses factors contributing to its success or failure. An exemplary or cautionary model; an instructive example.” It involves ones presentation and explanation of real worlds situation on which he or she observed or rather able to observe and experienced. Applying this method is found best as the researcher was part of the case under study. Information shall be that observed and experienced and supported by the data collected. Case studies offer rich unprocessed data which can be highly developed theoretically. The new information developed can hold across many cases and inspire new theories. Adopting this type research method has its own weaknesses and strength

Advantages

- It provides rich context and practical knowledge that can be described as dependent unlike independent information that can be found hard to understand.
- It is less restrictive that is it allows a degree of openness and freedom between the researcher and the corresponding
- it is descriptive in nature and is easily retained
- it is characterized with a high degree of contextual validity

Disadvantages

- can be difficult to determine the validity and reliability
- Conclusions drawn are usually highly subjective.
- generally in most cases it is not predictive
- open to small data collections as emphasis is on one or two groups or companies or rather

3.4 Population

Wagner (2010:80) defines a population as “a set of data consisting of all conceivable observations of a certain study,” Castillo J.J (2009:20) a research population “is generally a large collection of individuals or objects that is the main focus of a scientific query.” Sable chemicals is a big company employing approximately about 500 employees included in which is the management. This shall sorely contribute to the collection of data. The study shall be confined to the finance department. The target population is narrowed to be consists of the Finance manager, the Management Accountant, the Accountant and the costing officer. Also included is the production manager. ‘a population can be said to be the total number of possible units or elements that are included in the study.’ Gray D.E (2009;148).

3.5 Sample.

In trying to come up with a conclusion based on the case study a sample was used in the gathering of the information, which is a segment of the population chosen to symbolize the population as a whole. Preferably, the sample should be representative and permit the researcher to build perfect estimates on the opinion and activities of the larger population. Selection of a sample will depend on the size of the population. The following is an illustration of the sample selection from the accounts department;

Fig 3.5.1 Sample size

Participant	Population size	Sample size	Total percentage
Employees in finance department	6	4	67%
Management	4	2	50%
Total	10	6	60%

3.6 Sampling techniques

The type of information required by the researcher will determine the type of sampling technique to be adopted. It consists of probability and non-probability sample.

3.6.1Probability sample

Also referred to as random sampling in which all units in a population have a chance to be selected. In conducted the research the researcher made use of the random sampling procedure, which includes simple random sampling, stratified random sampling and cluster random selection. The researcher made use of the stratified sampling which two groups the sample was divided into management and accounting officers.

3.6.2Non –probability sampling

Walliman. N (2005) points out that non-random sampling is useful on other instances but it gives weak basis for generalization. The types of non random sampling are a convenience sampling in which the researcher selects the easiest population on which to gain the information from, quota sampling in which the researcher selects a number of people to interview in each group and judgment sampling in which the researcher uses his own judgment on the population that will best answer his questions.

3.7Primary data collection

These are methods used to collect data for analysis and draw of conclusions. Primary data collection are sources in which the researcher directly which may be referred as first hand data. This type of data according to Walliman N (2005) is collected through interviews, observations and questionnaires.

3.8 Questionnaires

Gray E D (2009), says questionnaires are a research tool in which people are expected to respond to a set of similar questions drafted by the researcher. He argues that while it may seem an easy task but much effort must be placed to ensure the validity and reliability and as well maintain the objectivity of the questions. To ensure the above and thus piloting the questionnaires the below considerations were taken as sited by Arksey and Knight (1999) in Gray E D (2009) they sight that one should avoid and consider

- length of questionnaire
- The quality of the questionnaire and make sure that they are well understood by the respondent.

- Avoidance should be done on language that racist or stereotyping or use of jargon as this may as well upset the respondent.
- Imprecision- which is the use of vague words for example average , regularly and a great deal these may be interpreted differently by the respondent
- Leading questions which tend to suggest an answer for the respondent and thus promotes bias answers
- Double questions
- Hypothetical questions like “suppose you were asked....’ These are poor predictors of people’s characters.
- Memory recall questions- are the type of question based on what occurred in the past or that refer to past events based on news or other publications.

Types of questions

In doing this research the use of both open and closed question was used to suit different circumstances as necessary.

Open questions

These have no definite response they are designed in a way that allows the respondent to give their answers as they have perceived the question. They usually start with the words “ how, who, what... etc” open questions allows maximum response in which the researcher maynot have expected. the biggest challenge in the use of the open ended question is that in some instances it may be difficult to compute the answers, the use of coding and coding frames is used which if applied in a qualitative research will mean identifying recurrent words, concepts and themes.

Closed questions

This is laying out of answers for the respondent for example “YES/NO” included at the end of each question. Gray (2009) “open questions make it easy to compare the views of one group with another. Closed questions can be useful in providing respondents with some structure to their answers. This include list of questions, category questions, ranking questions and scale questions.”

3.9 Likert scale

The researcher used a likert scale in gathering simplified questionnaires. According to Frank and Wallen(2007) a “likert scale is a psychometric scale that employs questionnaires by scaling responses of respondents alongside a range. Respondents indicated their degree of agreement with given question by use of a scale.”Lirket scale is a universal method of collecting data and is very simple to understand the question. Below is the ranking of the lirket scale

Table 3.2 Rating of Likert scale

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

3.10 Interviews

Gray (2009) defines interviews as “ a conversation between two people in which one has the role of the researcher.’ In which case the interviewer will have a set of questions which will be presented in a certain fashion or order that is usualWalliman N (2005).Semi structured is non-standardized questions and suitable for qualitative. Interview questions may be structured, semi structured questions. Structured questions are suitable for quantitative and the use standardized questions was adopted that is asking the same questions to all individual respondent. It enhances greater interactions and thus allows the respondents to develop their ideas.

To ensure the validity, reliability and reduced bias of the interviews in the case of structured and semi structured questions the following the following was applied

- Make sure that the questions are in line with the objective of the thesis and the research
- Giving the respondent time and the ability to express themselves
- Ensuring that the interviews are long enough for the exploration of the questions in depth
- The adaptation of a sample that has access to all levels of the objective of the research
- Interviewer must follow the same protocol on carrying out the interview and try not to eliminate giving preference to one group than the other.

3.11 Piloting the research.

The use of questionnaires in data research becomes a one shot way of gathering data. It there for becomes an essential in gathering the information that the question are accurate, unambiguous, and simple to complete. The questions were given to fellow students to view if the questions where complete. Gray E D(2009) says piloting will help to indicate where the questions are not clear and thus give room for amendment. The researcher noted the comments and even observed the questions on her own and further confided in other two people.

Table 3.4 Piloting Response

Questionnaire sent to:	Questions administered	Responded questions
students	25	24
Sable chemicals accounts department	15	15

Validity and reliability of the questions sent was 100% all the questions sent were responded to this included the use of pilot study to ensure if all the questions were clear and valid. There was no need for follow ups. Reliability is way of measuring consistency and can include the measure of stability, equivalence and inter-judge reliability (Gray 2009). The sample of 60% was largely representative of the population targeted which is the finance department.

3.12 Data Analysis

Cooper (2009:17) suggest that “data analysis should involve reducing accumulated data into a manageable size, developing summaries, looking for patterns and applying statistical analysis which are quantitative and qualitative analysis.” Findings gathered in this by the researcher shall be analyzed using the mode, mean and standard deviation. The mode represents the frequency of respondents to questions expressed as a percentage. Mean is the average whilst the standard deviation represents the measure of dispersion across different samples. Gray D E (2009:264) outline that “there are essentially two ways in which case study evidence can be analyzed. The first is to analyze the data on the basis of original theoretical prepositions and the research objectives that flowed from them the other are to develop a descriptive frame work.” In order to

eliminate the volume of data for recording purposes the questions were reviewed for completeness and removing all irrelevant data.

3.13 Chapter conclusion

The chapter looked into the research methodology adopted in the gathering of data for the thesis. It brings out the major source of data to be collected which is primary and secondary data while using the qualitative method of research method. A case study was adopted and analyzed using a descriptive method. The next chapter will give a detailed analysis of the data presentation and analysis of information gathered.

CHAPTER FOUR

4.0 Introduction

This chapter focuses on data presentation and analysis of the findings from the case study of Sable chemicals. Data gathered is according to the research methodologies as outlined in chapter three that is by use of questionnaires and interviews of the workers at Sable. Data is in the form of primary data with guidance which can be derived from the objectives, to explain data presented a descriptive narration was adopted. Data shall be presented on charts and graphs for greater analysis. The information collected was thoroughly analyzed to bring out the effect of lack of funding on operational performance.

4.1 Questionnaire Response Rate.

The researcher distributed a maximum of six questionnaires as per sample, four to employees out of a population of six and two to management out of four managers. All the distributed questionnaires were filled and returned to the researcher thus ensuring a hundred percent response rate. This is illustrated as below:

Table 4.1 Response Of Questionnaire

Description	Questionnaires distributed	Questionnaires Returned and filled	Response Rate in%
Management	2	2	33
Employees	4	4	67
Total	6	6	100

All the questionnaires were respondent to and thus a conclusion could be passed that the sample was adequate and sufficient enough to represent the population. The response rate was also cause of the willingness of respondents in the partaking of the research.

4.2 Response rate of face to face interviews

The researcher managed to interview the management at Sable Chemicals and out of the sample of two the researcher managed to interview all of them. The sample was adequate enough for a increased accuracy of response. This is illustrated as follows:

Table 4.2 interview response

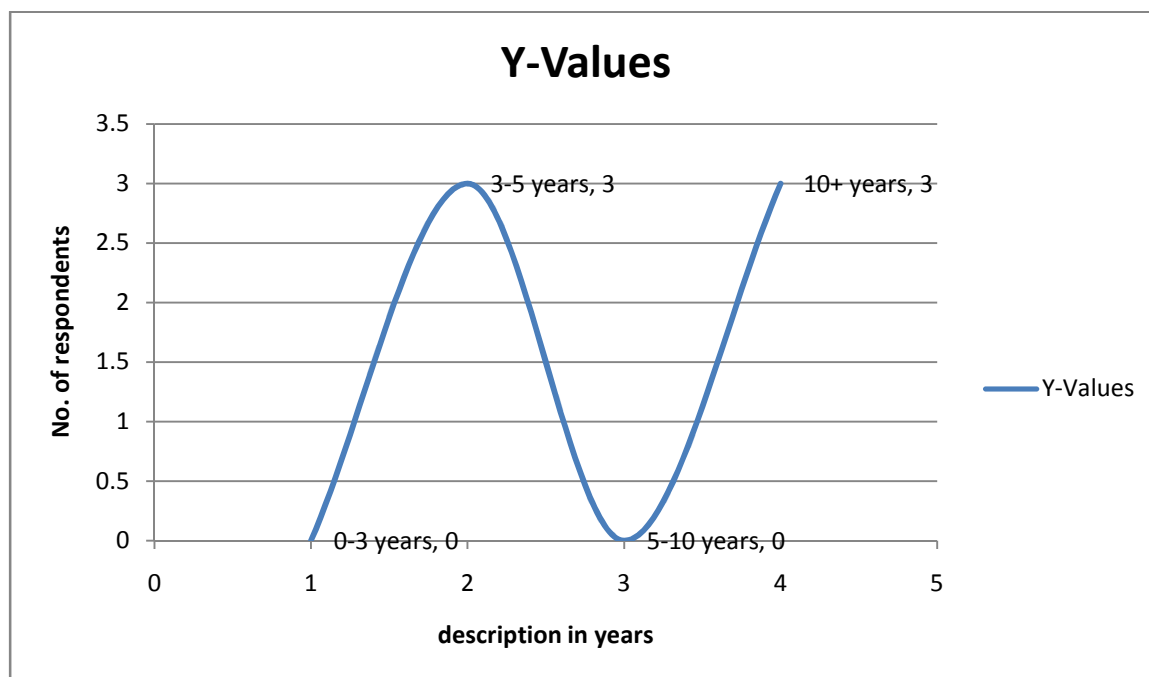
description	Interviews	Interviews conducted	Response rate
management	2	2	100%
employees	0	0	0

4.3 Background Information

Table 4.3Duration of Employee at The Company

Description	0-3yrs	3-5yrs	5-10yrs	Over 10yrs	total
Number of respondent	0	3	0	3	6
Percentage%	0	50	0	50	100

Fig 4.0 Duration of employees at the company



The table 4.3 and figure 4.0 shows on 0-3yrs there is no one who falls under that duration so is 10years but (50%) on 3-5yrs as well as a (50%) on those who have worked for 10yrs and over. The duration of time taken with the employees working for the company is adequate enough for the employees to have gained experience in all spheres of the company. it is thus apparent that they are well versed with how the company handles its funding as well as any implications and hiccups the company faced and still faces as a result of its operations. Hence the validity and reliability of the information is increased.

Table 4.4 Highest Qualifications Attained

The qualifications of the employees increase the probability of the information collected to be correct this is because of the well qualified personnel hired by the company. This is shown below:

Description	O Level	A Level	Degree	Masters	PHD
Number of respondent	0	0	4	2	0
Percentage%	0	0	67	33	0

The table shows that a 67% of the employees are degree qualified and a 33% are in hold of masters.

4.4 Response to questionnaire.

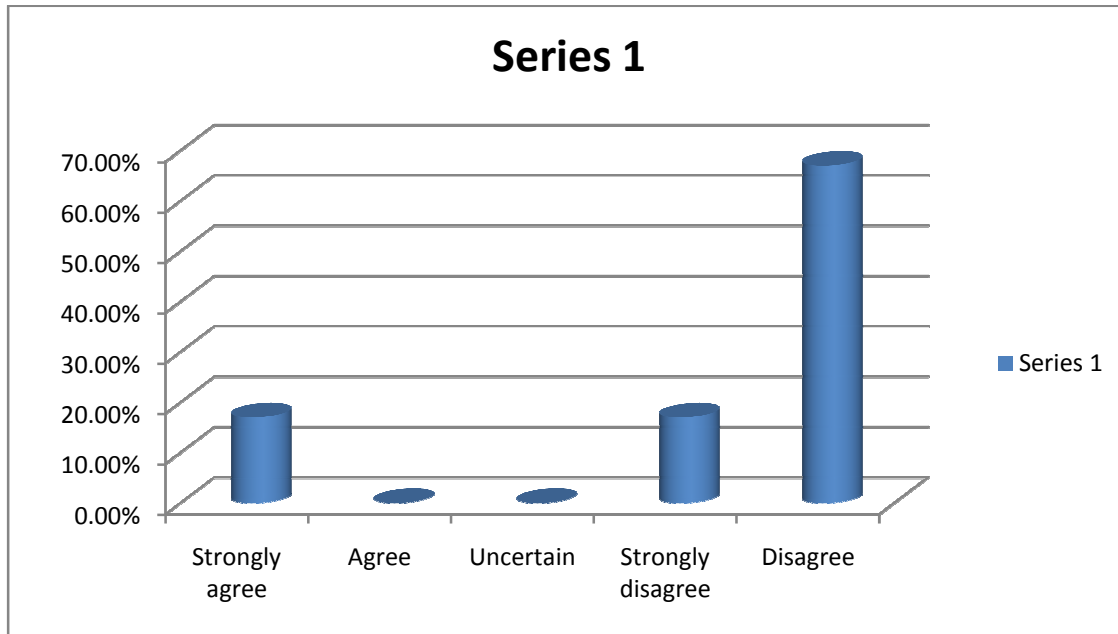
A mean of 1.2 represent an average across the sample thus the central value.

Qn1. Is there an effective funding policy at Sable?

Table 4.1 funding policy at Sable

	SA	A	U	SD	D	Total
Respondent	1	0	0	1	4	6
Percentage	16.7	0	0	16.7	66.7	100

Fig 4.1 Funding Policy at Sable



The existence of an effective funding policy at is not well defined at Sable. The graph shows that 16.7% of the sample chosen agree that there is a funding policy, 16.7% strongly disagree on the issue that there is a funding policy and a total of 69.7% disagree that there is an effective funding policy. A standard deviation of 3.2 shows a wide dispersion from the central value of 1.2 as the respondents disagreed that there is a funding policy. Richard .S (2002) explains that the rules and procedures set aside in organizations that must be adhered to when it comes organizational operations. Without the implementation of such rules and policies it may result in poor operational results.

Qn 2 is the funding policy communicated to employees?

Since the funding policy not well defined a few people agree that the funding policy is communicated to employees. A percentage of 33.3% agree that the funding issues are communicated, 50% strongly disagree that the funding is communicated and 16.7% disagree that the funding policy is communicated to employees. As illustrated by the table below:

Table 4.2 funding policy communicate to employees

	SA	A	U	SD	D	Total
respondents	0	2	0	3	1	6
Percentage%	0	33.3	0	50	16.7	100

Jokomba H.D stresses a point that a friendly environment should be in place before any implementation of strategies and policies and this includes communicating with lower level management and employees as well.

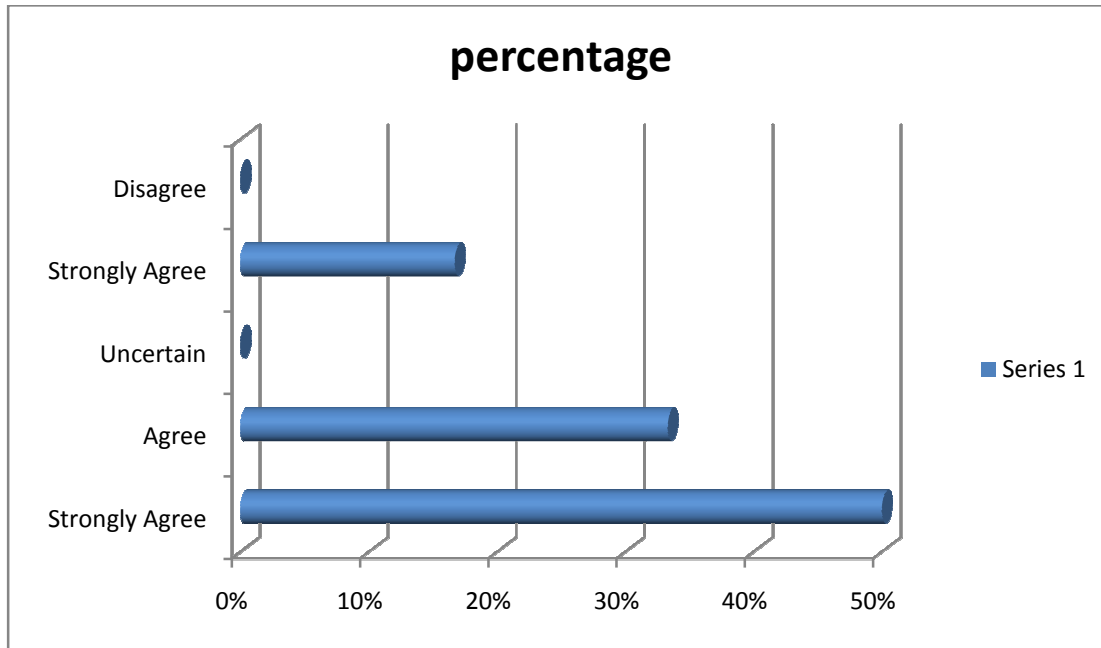
Qn3. The company depends on external funding

Table 4.3 Company dependence on external funds

	SA	A	U	SD	D	Total
Respondent	3	2	0	1	0	6
Percentage	50	16.7	0	16.7	0	100

The table above and the figure below represent the response in relation to external funding as a source of funding for Sable chemical, a standard deviation of 2.6 is obtained which explains a less widely dispersion from a mean of 1.2. The mode shows, 50% strongly agree that the company mainly depend on external funding, 33.3% agree whilst 16.7% strongly disagree that the company main source of funds are external funds. ZviBodie and Robert C (2009) say that a company that mainly depends on external funding is the one that looks out to the providers of funds such as bankers, investors and creditors. And usually these sources are characterized by increase in debt.

FIG 4.2 Company's dependence on external funds.



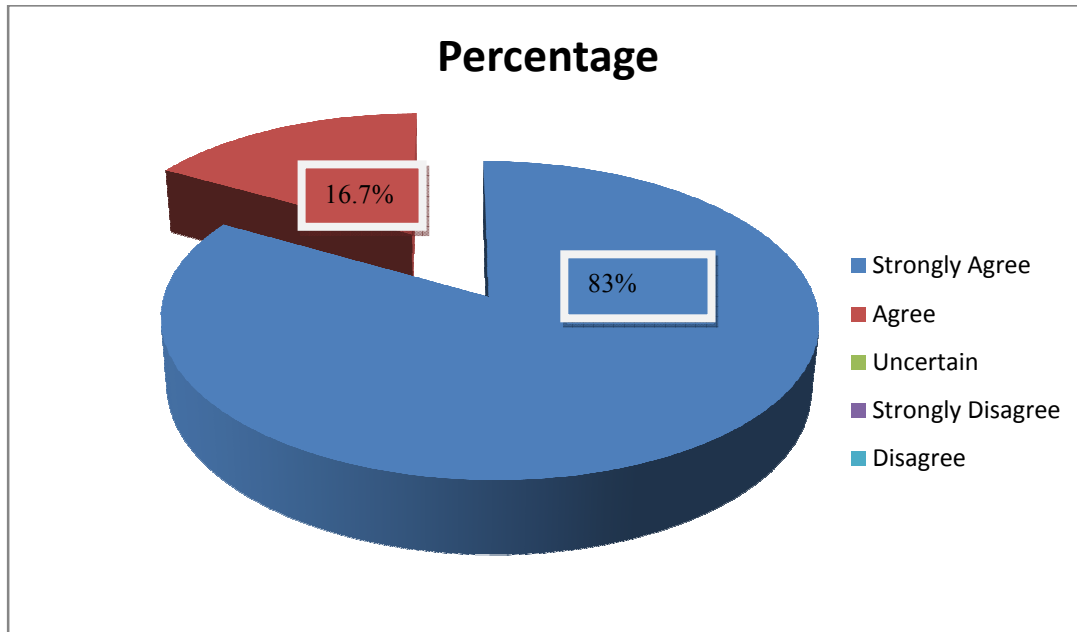
Qn4. Has the production system led to high production cost

Every company has a major cost center that contributes to an increase in production cost. As it was highlighted by Bellgran M and Safsten K (2004) effective and sound production system enhances a competitive environment. Upon the designing phase the effectiveness of such a system should be taken into consideration and make allowances for technological changes. The following table and figure illustrate the effect of out dated production system. A standard deviation of 4.34 is derived showing a wide spread of dispersion from the mean of 1.2 thus increasing the agreement of respondents to the fact that the production system led to high production cost.

Table 4.4 production system and production cost

	SA	A	U	SD	D	Total
respondent	5	1	0	0	0	6
Percentage	83.3	16.7	0	0	0	100

Fig 4.3 production system and production cost



The table and figure shows that the mode of 83% of the people strongly agree that the production system has led to high production cost and 16.7% just agree on the effect of the production system in increasing production cost.

Qn 5 The production cost has in turn affected the company’s financial performance

The major population agrees that the production cost has affected the financial performance of the company. a mode of 50% strongly agree to the effect of the production cost caused by the production system on company financial performance and 50% agree as well. A standard deviation of 3.2 shows a wide dispersion spread from the mean. This is illustrated below

Table 4.5 Production cost has affected company’s financial performance

	SA	A	U	SD	D	Total
respondent	3	3	0	0	0	6
Percentage%	50	50	0	0	0	100

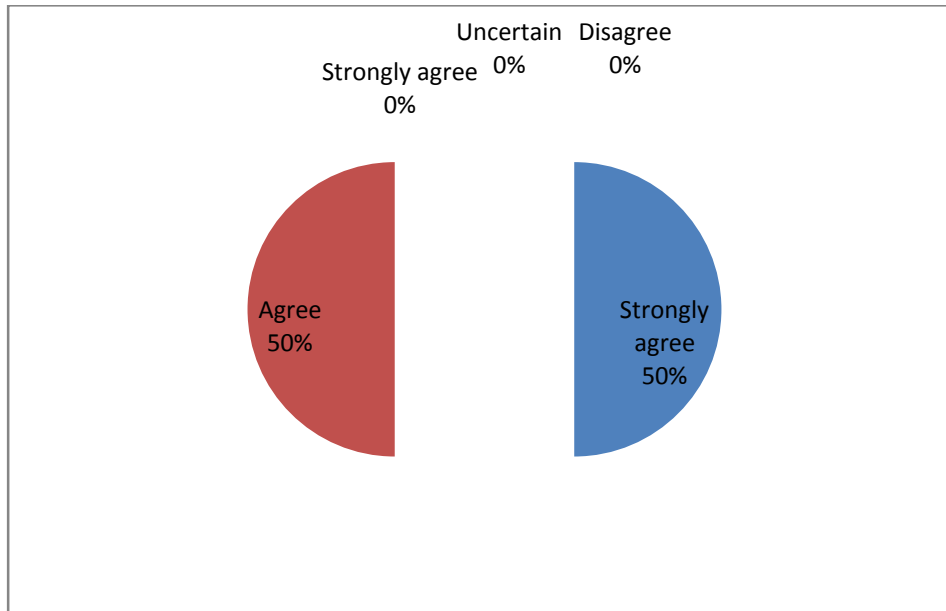
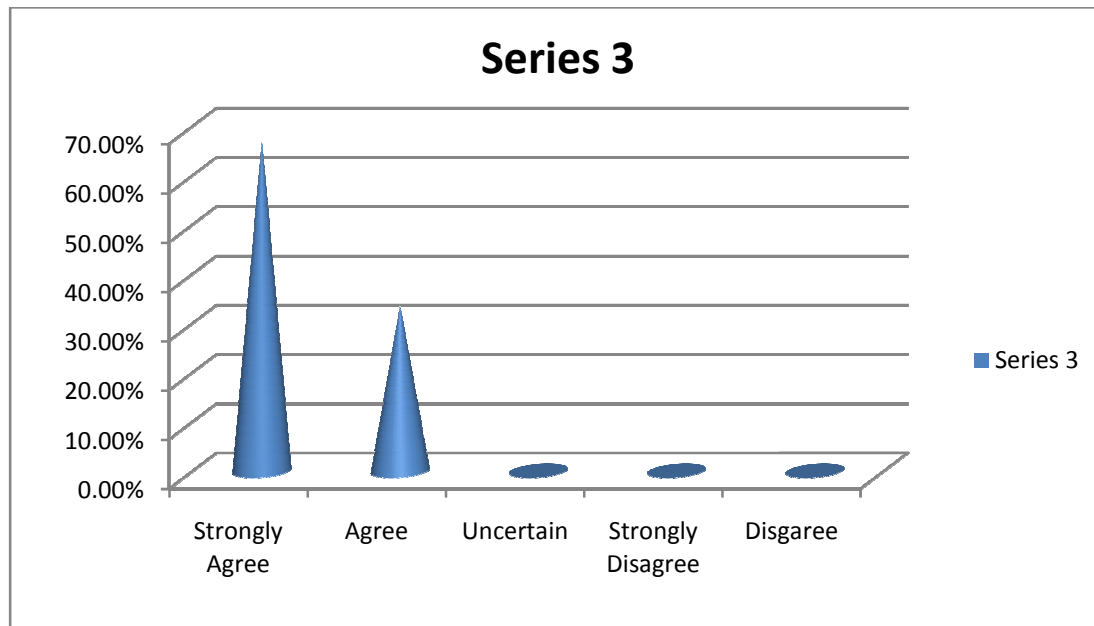


FIG 4.4 Production cost has affected company's financial performance

Qn6 In your opinion do you think the company is in need of more capital

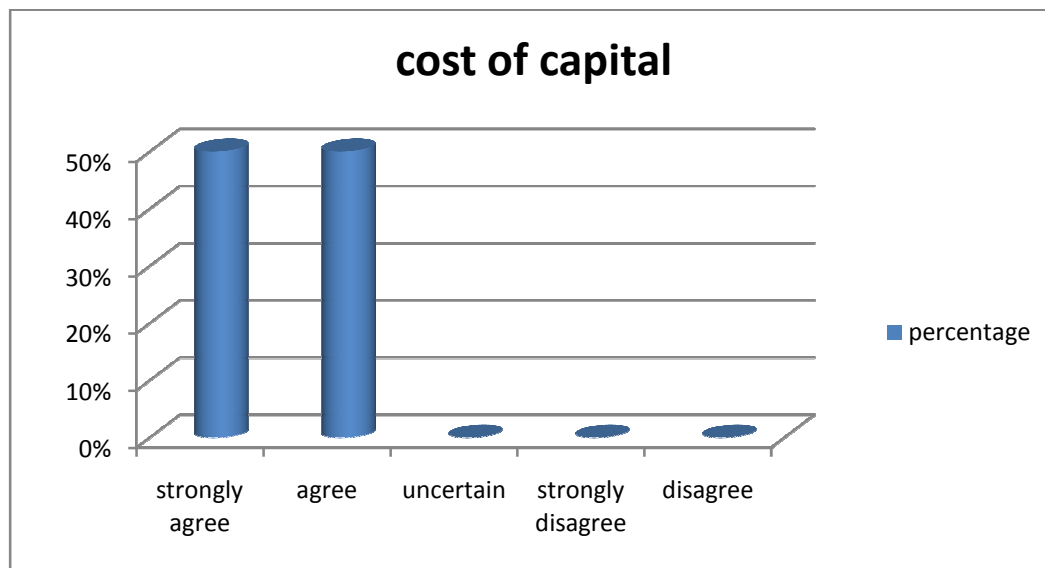
All business requires capital for variety of reasons and this capital is raised in the form of funding. These funds are in turn a necessity to all operations within organizations Jameson K (2009) explains how capital gives businesses the ability to progress and move from being small organizations to large ones. The figure below shows that a mode of 66.7% strongly agree that the company is in need of more capital and 33.3% agree to the need of more capital. This reflects that more funds are required to be injected into the organization. Standard deviation of 3.6 also indicates a less wide dispersion of respondents from the mean in agreement that the company is in needs of more funds.

Fig 4.5 Capital needs



QN 7 Can the company meet the cost of capital there after

Fig 4.6 Cost of capital



The table above shows that 50% strongly agree that after funding the company will be able to meet and pay its cost of capital and the remaining 50% also agree that the company will be able to meet its cost of capital. Also calculated was the standard deviation of 3.2 indicating a less wide dispersion from the mean of 1.2.

Qn.8 What is your comment on the company's' operational performance

The operations of the company in relation to the response of employees is that it is currently operating below capacity and they agree that the current performance is not as expected because of lack of funds to cater for the cost of running the electrolysis plant.

Qn.9.What factors do you think has been affecting funding

Respondent 1: lack of liquidity in the economy

Respondent 2: high cost of borrowing and liquidity issues

Respondent 3: lack of working capital

Respondent 4: slow economic growth

Respondent 5: the company has few big scale commercial farmers to buy the product and lack of proper farming technology

Respondent 6: high operational cost and low liquidity crunch in the economy.

Qn.10. Would you strongly attribute the prevailing economic conditions as a major effect to the factors above

a 100% response rate strongly agreed that the prevailing economic conditions are the major effect of the factors affecting the funding both internally and externally.

Qn.11. What do you think the company is lacking for it to be competitive?

Respondents have the opinion that the company is in need of more markets to increase its revenue, others are of the view that the company needs more capital to refurbish the plant and develop new technological ways of producing the major product ammonia as well as reduce production costs.

Qn12. In your opinion what should the company implement to gain that giant sole manufacturer in the market?

The respondents have the opinion that funding is a major problem to cater for refurbishment of the production system. They say the company needs more capital to fund all operations as well as set targeted capacity and motivate staff to work towards aligned goals. The company also said should increase the production and importation of ammonia.

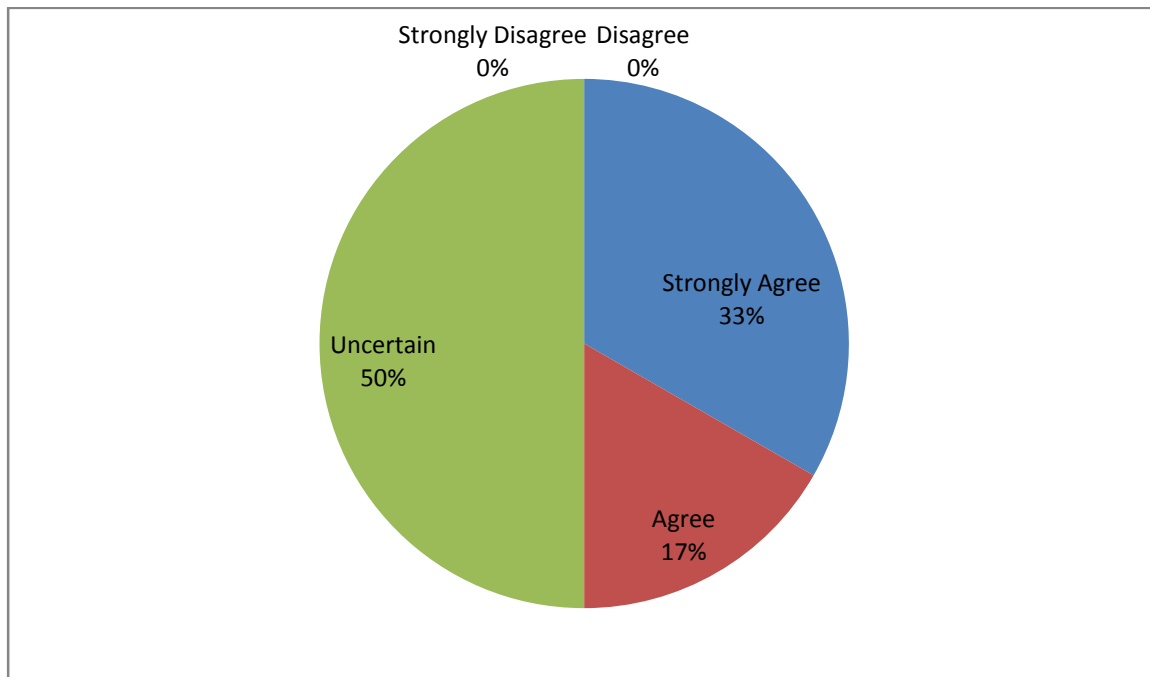
Qn 13. Would you say the current shareholders are liquid enough to fund Sable?

As per response from the targeted sample they are not sure of the liquidity status of the shareholders of Sable Chemicals, others are aware of the information and a few of them responded the current shareholders are not able to fund sable as they are facing liquidity challenges themselves.

Qn14. Are there any risks associated with funding policy.

	SA	A	U	SD	D	Total
respondent	2	1	3	0	0	6
Percentage%	33.3	16.7	50	0	0	100

Fig 4.7 Risk associated with funding



The above table and graph illustrate the findings on the risk associated with funding policy 50% was uncertain of the risk associated with funding, mode of 33% strongly agreed that funding has its own risks and 17% agreed to the existence of risks in funding issues.

Kulsretha N (2009) explains how investors are interested in high risk projects because they have high returns and projects as such required huge sums of funding. The risk lies in the fact that the company should fail to meet the cost of capital when required and thus may lead the company in debt.

QN16. What controls is the company implementing to cater for such risks?

Fig 4.8 Controls to Cater For Funding Risks

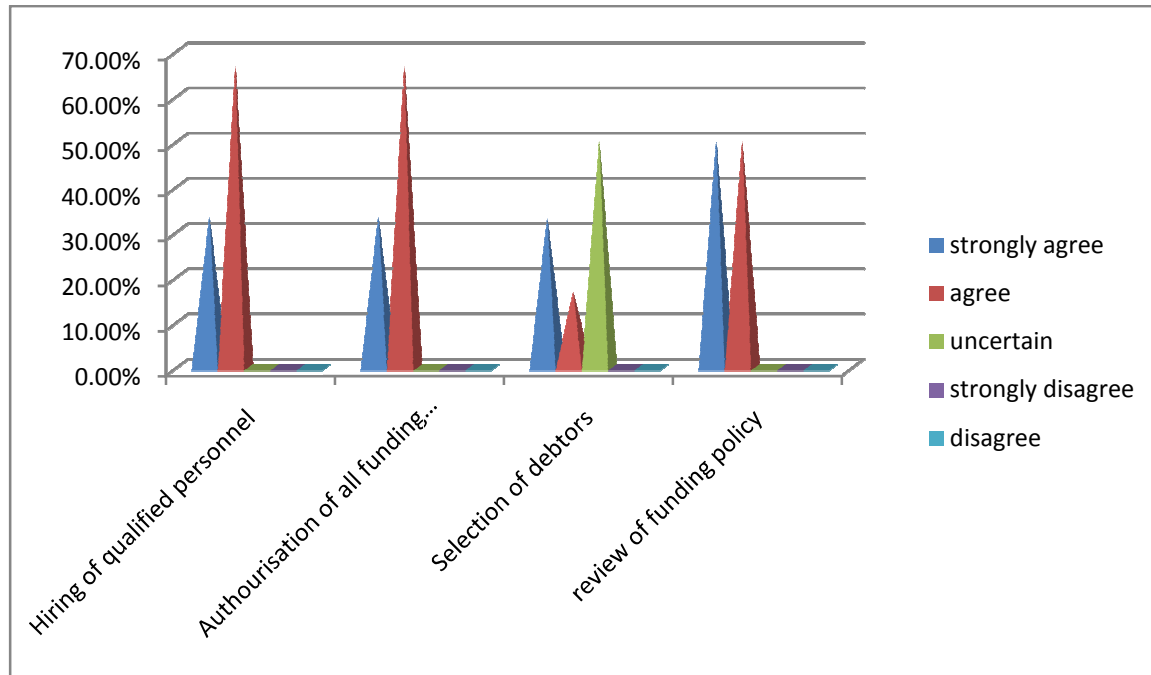


Figure 4.8 represent some of the controls put in place by sable to cater for funding activities risks. The mode of 33.3% strongly agree and 67% agree that the company recruits qualified personnel to run the operations of the company, 33.3% strongly agree that all funding activities are authorized and 66.7% agrees as well that there is authorization of all funding issues, 33.3% strongly agree that there is thorough selection of debtors, 16.7% agree and 50% of the respondents are uncertain any issues regarding the selection of debtors and 50% strongly agree that the company reviews the funding policy as a way of reducing funding risks and 50% agrees that the company reviews its funding activities.

Summary and analysis of interview questions.

Qn1. What is the funding policy for Sable Chemicals?

The company’s funding is mainly consisting of internal sources from debtors and short term debt loans. Jonathan. internal funds are not necessarily profits but funds are generated form debtors as they pay B (2011) describes a funding structure that consists of short term debt to finance

permanent working capital to be an aggressive finance policy. Respondents cite that the company sales are cyclical and thus during off seasons when sales are very much low they fund the operations with short term borrowing.

Qn2. What sources of finance are available to the company?

100% response agreed to the fact that the company major funding is its sales(debtors) and not profits as the company has been undergoing financial losses for the past years. Respondents also say that they borrow privately from banks as cited by www.investopedia.com (3/12/2014, 5:23pm). Adding on as a source of fund a subsidy is also given to the company by the government in catering the electricity bill.

Qn3. What reasons and objectives behind such funding above?

Funds derived are used for funding working capital as well as fund other internal operations. 100% response supported that more funds are required in funding the production.

Qn4. Are there any reviews done on funding activities and policies?

Respondents say “Reviews are done by top management and communicated to lower level personnel and actions taken if need arise.”

Qn5 How effective is the funding policy?

The interviewee indicated that the current funding activities are very much effective considering the economy and the funding system has kept the company going for the past years. Regardless, they all agreed that if only the company financial performance could be improved and generate more sales this can improve the profitability of the company. As cited by Phillip J and Alan M (2011), profitability refers to the concepts of efficiency than effectiveness on all the returns on investment. Thus more effectiveness is required to attain high profitability

Qn6. What is affecting the funding policy?

Respondents agreed that the current market condition are affecting the funding policy especially the borrowing interest rates. Jonathan B (2011) states that short term debt exposes the firm to

funding risk resulting in financial distress caused by refinancing the debt. They further stated that lack of liquidity with the banks resulting in a long extended period to receive the applied money.

Qn7. How is the production system affecting the operational performance?

The review indicated that the manufacturing plant is working below capacity; the marginal profit is only recognized only when large volumes are sold for which the plant production can't attain. Break downs are a major issue as well affecting operations. The plant is now old and new spares to refurbish the plan are not available on the local market thus the company has to import. In addition to that the costs of importing is high. Lack of funds to fund the plant has also affected the production system

Qn8. What factors are affecting investments at Sable?

The following were cited by the respondents as factors affecting investments;

- Lack of resources for the company to fund its current status as T/A Holdings is the major shareholder and liquid investor who has final say
- The risk associated by the heavy project which is underway is too much this can be cited as a major drawback of investors. The coal gasification which is going to result in the complete shutdown of the electrolysis plant
- Risk also lies with the current production plant which is the biggest electrolysis plant in the world establishes in the 60s. it requires heavy funding as well proper insurance policies which are very much costly
- Berk.J and Dermazo.P (2011), indicates that published news and all media publications affect investors decision. Following what has been said by the media about the company and this can be said to have affected investment.

Qn9. How can you briefly describe the effect of cost of capital?

The respondents noted that the greatest effect of cost of capital is cost of borrowing arising from interest on all borrowings. , because of the lack of profits dividends have not been declared since 2009. ZviBodie and Robert C (2009) argues that if the portion of debt in firms increase the

likelihood that the firm might default on the debt should the cash flows be low, thus this may lead to financial distress. Cost of debt is that cost the company has to pay on capital.

Qn10. What strategies has the company implemented to increase profitability and recapitalize the business?

Respondents cite that reviews are done on operational objectives and strategies implemented by the company. Efforts are also being made to increase production of ammonia so as to increase the volume of the final product (ammonium nitrate), a continued funding of the electrolysis plant to maintain its operations is done. The company also intends to increase their levels of imported ammonia which is used for production.

4.5 Chapter summary

The chapter gave a detailed analysis on data gathered during the field research. The data gathered was from questionnaires and interview questions. This chapter shall serve as a basis from which the recommendations and conclusions for the next chapter shall be derived from. And these conclusions are on the issue of poor financial performance which the researcher is pointing out to be from the impact of lack of funding on operational performance.

CHAPTER FIVE

5.0 Introduction

The chapter seeks to outline the conclusion onto the research under study which is the impact of lack of funding on operational performance which has lead to poor financial performance. This chapter shall give the research summary as well as conclusion derived from data gathered and analyzed in chapter four.

5.1 Chapter Summaries

Chapter one gave an introduction to the thesis under study, it covered the background of the study, the statement of the problem, main research question as well as the sub research question, objectives of the study. Also included were the delimitations, limitation of the study, the theoretical framework, definition of terms and the chapter summary.

As a guide to the research the following objectives were used:

- Identify the funding policy for sable
- Identify the main strategy and for Sable in relation to recapitalization and profitability
- Evaluate the cost of debt
- Asses investors attitude towards investments
- Assess the effect of production system on financial performance.

Chapter two dealt with literature review in which the researcher used other scholars' ideas in support of the thesis. Literature review was obtained from published, journal, the internet and other relevant current published information.

Chapter three dealt with the research methodology that was used to gather data in the field. The chapter included the ways in which the data will be piloted to reduce ambiguity and also how the data will be analyzed and presented.

Chapter four included data presentation and analysis the chapter provided the basis on which the conclusion were drawn from.

The study was on the investigation of poor financial performance emanating from lack of funding on operational performance. The aim of the study was to bring out the loopholes on which the company could tackle and improve the financial performance.

5.2 Major Findings

- There is a lack of a profound established funding policy, only management is aware of funding issues but it is not communicated to the employees.
- The company depends on both internal(debtors) and external funding (short term debt) because the sales of the company are cyclical that is the company has high sales volumes during rainy seasons.
- Poor production system has led to poor financial performance in high costs, low capacity which is not producing enough volumes to increase marginal profits, breakdowns and unreadily available spare parts and other insurance policy conditions.
- Lack of direct markets which is affecting profitability
- Liquidity crunch in the economy if affecting borrowing.
- The production system has mainly affected the operations at sable thus arising from lack of funds to cater for the costs resulting from operating such a big plant. Thus the company can only depend on payments from debtors rather than profits.
- Funds are also needed to cater for the working capital and internal operations

5.3 Summary Achievements of Research Objective.

No funding policy is established and communicated to the employees. The research concluded that the dependence of the company on short term debt increased the company's funding risk which in turn may lead to financial distress this has led to the auditors of the company giving an opinion that the company should liquidity. Lack of funding has resulted in a series of losses being made by the company emanating from the dilapidated production system, also caused by lack of funds is the shrinking of the statement of financial position it has also slowed the company's progress in establishing new technological production system to recapitalize the business and increase performance and efficiency.

5.4 Recommendations

- i. The company should consider increasing its sales by selling directly into the market rather than depending on contracts that serve between the company and its distributors which is not always effective.

- ii. Management should consider funding its operations with long term funding as it is conservative and that it allows the spread of the cost of capital over a long period therefore increasing liquidity and equity ratio. Long term credit also give the firm huge amounts of money which can be viewed as capital as it is directed on use on special machines and other capital in nature expenditure this is cited by Ross W. J. (2010).
- iii. Richard P. (2009) sights out that long term credits allows the firm to lock the cost of capital from debt over a period of time and thus reduce the costs as compared to short term debt.

5.5 Areas of further study

The viability of long term funding and its effect on operational performance.

5.6 Summary

The research dealt with the investigation on poor financial performance caused by the effect of lack of funding on operational performance at Sable Chemical industry. The researcher recommends that the company take advantage of the sole producer and supplier of ammonium nitrate a product found ital in the economy of Zimbabwe. The company should have a direct link into the market to increase internal funding as it is less expensive and readily available.

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APPENDIX A

Midlands State University

Faculty of Commerce

Department of accounting

P Bag 9055

Gweru

TO WHOM IT MAY CONCERN

I am a fourth year student currently studying a Bachelor of Commerce Accounting Degree. As a requirement to partial fulfillment of the degree program, students shall carry out a research of their choice. My research topic is THE IMPACT OF LACK OF FUNDING ON OPERATIONAL PERFORMANCE. I hereby seek approval to carry out the research at Sable Chemical Industries Ltd.

Additional assistance will be required on information that will be of assistance in this module. All the information will be treated with confidentiality and only used for academic purposes. I kindly ask you to complete the questionnaire attached to this letter.

Thank you for your co-operation

RopafadzoKufahakurotwe



APPENDIX B RESEARCH PROJECT QUESTIONNAIRE

Research topic: The impact of lack of funding on operational performance

Instructions

- ❖ Please tick the box in front of your choice
- ❖ Please fill in the relevant response for closed ended questions

Please do not write your name on the questionnaire

Background information

- Duration with the company
0-3 years -5 years 10 years over 10 years
- Position held within the company.....
- Highest academic qualification attained.
O' level A* level degree masters . PHD
Other (specify).....
- Gender: Male Female

- Is there an effective funding policy at Sable?
Strongly Agree Agree Uncertain Strongly Disagree Disagree
- Is the funding policy communicated to employees
Strongly Agree Agree Uncertain Strongly Disagree Disagree
- The company depends on external funding
Strongly Agree Agree Uncertain Strongly Disagree Disagree
- Has the production system led to high production cost
Strongly Agree Agree Uncertain Strongly Disagree Disagree
- The production cost has in turn affected the company financial performance
Strongly Agree Agree Uncertain Strongly Disagree Disagree

5. In your opinion do you think the company is in need of more capital

Strongly Agree Agree Uncertain Strongly Disagree Disagree

6. Can the company fully meet the cost of capital thereafter

Strongly Agree Agree Uncertain Strongly Disagree Disagree

7. What is your comment on the company's operational performance

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.....
.....

8. What factors do you think has been affecting funding

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.....

9. Would you strongly attribute the prevailing economic conditions as a major effect

Strongly Agree Agree Uncertain Strongly Disagree Disagree

10. What do you think the company is lacking in order for it to be competitive?

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11. In your opinion what should the company implement to gain that giant sole producer in the market?.....

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.....

12. Would you say the current shareholders are liquid enough to fund Sable if not why?

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

13. Are there any risk associated with funding policy

Strongly Agree Agree Uncertain Strongly Disagree Disagree

14. If so support your answer

.....

15. what controls is the company implementing to cater for such risk

	Strongly agree	agree	uncertain	Strongly disagree	disagree
i. Hiring qualified personnel					
ii. Authorization of all funding activities					
iii. Selection of debtors					
iv. Review of funding policy					

Thank you for your cooperation.



APPENDIX C RESEARCH PROJECT INTERVIEW GUIDE

Questions

1. What is the funding policy for Sable?
2. What sources of financing are available for Sable?
3. What reasons and objectives are behind such funding noted above?
4. Are there any reviews done on the funding activities and policies?
5. How effective is the funding policy?
6. What is affecting the funding policy?
7. How is the production system affecting the operational performance?
8. What factors are affecting investment at Sable?
9. How can you describe the effect of the cost of capital on the operational performance?
10. What strategies that have been implemented to increase profitability and recapitalize the business?

Thank you for your cooperation