Midlands State University

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FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

'THE IMPACT OF DEBT FINANCE ON FINANCIAL PERFORMANCE OF A FIRM: A CASE OF TELONE PRIVATE LIMITED'

BY

MUZEYA LIZIWE

R141455F

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

Gweru: Zimbabwe: September 2017

DECLARATION

I ……………………………………………………………………… do hereby declare that this dissertation is a product of my own work and research except to the extent indicated in the acknowledgement, references and report in the body of the report and that it has not been submitted in full or partial fulfilment of any other degree or at any other university or institution.

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The undersigned certify that they supervised the dissertation of **MUZEYA LIZIWE** with registration number **R141455F** entitled **'THE IMPACT OF DEBT FINANCING ON FINANCIAL PERFORMANCE OF A FIRM: A CASE OF TELONE PVT LTD'.** The dissertation was submitted in partial fulfilment of the requirements of the Bachelor in Commerce Accounting Honours Degree (HACC) at Midlands State University.

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DEDICATIONS

I dedicate this dissertation to my family and friends. Your motivation and endless support has seen me this far.

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Special and sincere gratitude goes to the Lord Almighty. Without the grace of the good lord, I wouldn't have made it this far.

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ABSTRACT

The main objective of the study research was to determine the impact of debt finance on financial performance using a case of a company in the telecommunications sector and which is not quoted at the Zimbabwe Stock Exchange: TelOne Pvt Ltd. The major issue that gave rise and prompted the researcher to study across this area was the increased levels in debt funding of projects in the organisation of which no increase in financial performance was being marked. The study employed a mixed approach in answer the research questions which were both quantitative and qualitative. The information and data was gathered from secondary and primary sources which consisted of financial statements and questionnaires as well as interviews with a population of 30 from which a sample of 20 was incorporated. The statistical packages used for analysis of quantitative data were Excel and SPSS 20 and the variables incorporated in the study included long term debt, short term debt, diversification and tangibility and these were the independent variables whereas ROA was the measure of financial performance and dependent variable of the study. The key findings of the study shows that debt funding was significantly and statistically negatively impacting on ROA of the organisation which was a measure of financial performance. The study results showed that at significance level of 5%, the relationship between debt capital and financial performance was significant at close to 4% and therefor the null hypothesis of the study was not rejected. The study further revealed that 68% of the variations in financial performance were explained by debt capital and diversification and this meant that the organisation was relying too much on debt capital. The study recommended the organisation to utilise debt capital as the last resort as the costs of debt capital were found to be outweighing the benefits generated from the debt funded projects.

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ABBREVIATIONS

Pvt Ltd	Private Limited
ROA	Return on assets
HHI	Herfindal-Hirschman Index

CHAPTER 1

INTRODUCTION

1.0 Introduction

The study sought to determine the impact of debt finance on financial performance of TelOne Pvt Ltd. According to the empirical studies conducted by Akhtar et al, (2012) and Ojo, (2012), it was established that there is a positive relationship between debt finance and financial performance. Adesina and Nwidiobe, (2015); Githire and Muturi, (2015); Antwi et al., (2012); Thomas et al, (2012); Saeed and Gull, (2013); Kar, (2012) in their studies found out and agree that not only is there a positive relationship but a significantly positive impact. Mutai, (2014); Modi ,(2014); Naiseku and Susan, (2016) ; Kondoyo, (2013); Wachira, (2014); Ahmad et al, (2012) suggested that continual borrowing chases away investors thus negatively affecting the financial performance of the organizations and they also established that the negative relationship was linked to organizations having to pay up the accruing interests thereby failing to enhance the financial performance. Based on the above empirical literature it can be deduced that the impact of debt finance on financial performance is inconclusive. All the previous studies were mainly focusing on listed companies and banks thus this provides a gap for the researcher to analyze the impact of debt finance on performance of telecommunication companies.

1.1 Background of the study

TelOne, a telecommunication company, has realized declining financial performance for the past three years, even after adopting debt financing as a way of trying to improve its performance. The financial performance of 2016 measured by EBITDA showed a 26% decrease as compared to the previous year 2015(Management Report 2016). The finance costs of the organization are exorbitant as they comprise of the interests related to the foreign debt

finance as well as the local debt finance. The debt finance was acquired to fund the broadband projects following the migration by the market from the fixed line services to the mobile services. The board of directors highlighted that from 2014 when the broadband service was established to 2016, broadband usage had not yet been significant and this has seen the deterioration in the financial performance in terms of revenue and profits generated (Board minutes 2016) and by saying this they had identified that there is a problem in regards to the debt finance that they acquired for the purposes of this project, the rewards are not matching with the interest payments being made. The Audit and Risk Executive also expressed concern over the finance charges which are very high and not matching with the revenue generated by the projects, he also noted that this was having a negative impact on the financial performance of the company as a whole (Internal audit emergency report on finance 2016)

Table 1.1 measurement of the performance of the company

Description	2014	2015	2016	variance	Variance
	($millions)	**($millions)**	**($millions)**	**2015**	**2016**
Revenue	157	138	114	-12%	-17%
Broadband revenue	27.9	28.7	33	3%	15%
Foreign long-term debt finance	47.8	56.7	98.6	19%	74%
Local debt finance	29.4	27.9	25.2	-5%	-10%
Interest charges	12.6	14.9	19.3	18%	30%
Net profit	**12.8**	**5.8**	**-24.9**	**-55%**	**-529%**

Source: TelOne annual financials 2014- 2016

According to the financial statements, there was a 12% decrease in total revenue and 17% during 2015 and 2016 respectively. There was a sharp increase in foreign debt finance of 18% in 2015 from the previous year 2014 as a result of increase in broadband projects which needed to be funded. In 2016, the foreign debt finance rose by over 70%. The company is reducing its local debt finance and at the same time highly increasing its foreign debt finance which has also resulted in an increase of the interest charges to 29%.

The increase in the foreign debt finance can be attributed to the decreasing profits because of the interest charges which are also on the rise. The major reason for acquiring the debt finance was to fund the broadband projects but it can be deduced from the above financials that the revenue being generated from the projects is failing to match the interest charges accruing to the organization thus there is no enhancement in the financial performance. This has given a room for the researcher to carry out a study and analyze the impact that debt finance has on the financial performance of TelOne private limited.

1.2 Statement of the problem

TelOne is experiencing continuous decrease in its financial performance after it decided to have a capital structure consisting of both local and foreign debt. The debt was acquired with the aim of financing broadband projects for them to improve their financial performance. Even though they have acquired the necessary funding to effectively boost their operations, no remarkable or significant relationship has been ascertained to date on the relationship between debt finance and the financial performance, therefore the motive of this research.

1.3 Main research question

What is the impact of debt finance on financial performance of an entity in the telecommunication industry?

1.4 Sub research questions and hypothesis

i) What are the determinants of capital structure of an organization?

ii) How does debt finance affect diversification of products and services?

iii) What is the impact of debt finance on financial risk of an organization?

iv) What is the impact of debt finance on market share of a company?

Hypothesis

Ho debt finance is significantly related to financial performance.

H1 debt finance is significantly and negatively related to ROA.

1.5 Objectives

The main thrust of this study is to ascertain and determine the impact of debt finance as a means of capital investment of an organization on the financial performance.

Sub objectives are:

i) To explore the factors which determines the capital structure of an organization?

ii) To determine the impact of debt finance on diversification of products and services.

iii) To ascertain the impact of debt finance on market share of an organization.

iv) To determine the impact of debt finance on financial risk of an organization.

v) To determine the relationship between debt finance and financial performance.

1.6 Justification of the study

The material to be provided can be useful to other researchers wanting to carry out further studies. It will also add to the currently available literature on debt finance and financial performance of a non-listed organization.This study will provide the researcher with an in-depth understanding of the subject under study. It will also sharpen her diagnostic, analytical and judgment skills in carrying out future researches across varying subjects. This study will

give the organization an empirical analysis on the impact that the debt finance has on their financial performance. This will help them in critically evaluating and analyzing the related relationship in deciding the contents of their company's capital structure.

1.7 Delimitations of the study

- The scope of the study is on the impact of debt finance on financial performance of a non-listed telecommunication company. (TelOne Pvt Ltd).
- The data used was from the head office (Runhare House) in Harare.
- The study will be limited for the period 2014 to 2016.
- The targeted population is the directors, management and employees excluding general hand employees.

1.8 Limitations of the study

- The targeted population might be reluctant to provide information for confidentiality reasons.
- The study will rely on secondary data of which much of the empirical studies conducted before were focusing on listed companies and also in other industries not the telecommunications which might prove to be different.

1.9 Assumptions of the study

- The targeted respondents will provide unbiased information.
- All questionnaires are answered by the respondents.

1.10 Definition of terms and Acronyms

Capital structure: is amalgamation of securities and funding employed by establishments to funding investment (Myers 1993)

Debt finance: borrowings for funding businesses which could either be short-term (payable within one year from the statement of financial position) or long term (payable over more than one year) Allen, (2015)

Financial performance: competency of an organization to transform the resources within the firm in an efficient and effective manner to achieve organizational goals. Daft (1997).

Financial risk: chance of arising loss which is triggered by the financial transactions of borrowing Hazzi and Kilani (2013).

Pvt Ltd Private Limited

ROA Return on assets

HHI Herfindal-Hirschman Index

1.11 Summary

This chapter gave an insight of what the study is going to look at and the statement of the problem which necessitated the need for the study. It outlined the introduction as well as the background of the study. The next chapter will look at the literature review which will be basically providing empirical evidence on the objectives.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

White (2010) defined literature review as an account of what has been published on a particular topic by accredited researchers or scholars. The chapter will give a detailed overview of the available literature on the capital structure by bringing out what other scholars discovered as far as this field is concerned; the researcher will then distinguish this research from others through the gap analysis.

2.1 Factors that determines capital structure of companies

It has not yet been established as to how companies that operate in developing countries determine their capital structure and this remains a contradictory concern since extensive researchers have been focusing on developed countries Chidoko, (2012). There are various factors that determine the capital structure of companies such as profitability, firm size, firm growth and tangibility Sangeetha and Sivaratharasan, (2013). The most identifiable and popular determinants are tangibility, size, profitability, firm growth, non-debt tax shield, tax and liquidity Chidoko et al (2012); Chang et al (2014) and Nijenhius, 2013.

2.1.1Profitability

Mutenheri and Munangagwa, (2015) explain from the results of the empirical study that have been conducted in Zimbabwe on the impact of profitability on determining capital structure decisions that the studies had produced mixed results. Chang et al (2014) examined on the relative importance of determinants of capital structure for firms in China and their findings revealed that profitability is the most prominent factor that determines capital structure of Chinese firms. The Tradeoff Theory also suggests that companies with higher profitability ratios should borrow more and a thus a positive association because it is highly probable that

firms can enjoy more debt tax shield. The empirical results from Hansen, (2013), Babu and Chalamu, (2014); Manrai et al (2014); Nijenhius, (2013) and Sherif and Elsayed (2013) established that a positive relationship exists between the profitability and the capital structure of an organization. In Zimbabwe a study carried out by Chidoko et al (2012) on companies listed on the Zimbabwe Stock Exchange found a positive relationship between profitability and debt ratio. In his study of Korean firms on the determinants of corporate finance models, Choi, (2014) established that profitability was significantly associated to financial leverage. This also explained that the higher the profitability level, the higher the debt finance as the organization would be in a position to attract loan suppliers.

The pecking order theory suggests that firms prefers internal source of financing as compared to external sources of finance. The empirical study conducted on a number of companies that are listed on the Kuwait stock exchange reveals that profitability has significant negative association with capital structure Gharaibeh, (2015). A study in Romania by Serghiescu and Vaidean, (2014) revealed that the profitability was negatively correlated to the capital structure. These results indicate that there is an inverse association between profitability and the capital structure of an organization. Other empirical studies also noted that leverage was negatively related with profitability Wahab et al. (2012); Tomak, (2013); Yolanda and Soekarno, (2012), and Wahab and Ramli, (2014). The negative associations assumed from the above studies are in line with the pecking order theory as firms with high degree of profitability find it proper to use the internally generated funds for investment rather than using debt finance. The researchers did not reach a conclusion as to the impact of profitability on leverage of an organization. This study seeks to investigate the extent to which debt finance in the telecommunications industry is influenced by profitability given that the profits of TelOne have been deteriorating for the past few years and also seeks to fill the literature gap in Zimbabwe

given that there are relatively few studies conducted and these were conducted for the listed firms Chidoko, (2012).

2.1.2Firm size

The size of company has been considered as important determinant of company profitability Babalola, (2013). Large companies can exploit economies of scale and scope and thus being able to borrow at relatively low prices Almajali, (2012). Firm size impacts on the borrowing levels of an organization as a bigger firm is considered to be less prone to bankruptcy as compared to a smaller firm. Serghiescu and Vaidean, (2014) suggest that leverage may be related to firm's size. The empirical findings show that firm's size was significantly positively related to financial leverage Choi, (2014) and Gharaibeh, (2015). Large firms should be more highly leveraged compared to small firms Tomak, (2013) and Manrai et al (2014). Cekrezi, (2013) found out that firm size was positively linked to short term debt, long term debt and total debt ratio and these finding supports the arguments and predictions of the trade-off theory which predicts a positive relationship between the two variables. Wahab and Ramli, (2014); Yolanda and Soekarno, (2012) on their findings, came up with a contrary negative relationship between debt ratios and firm growth and size. The empirical analysis conducted in Turkey shows that firm's size was negatively correlated with leverage except for fabricated metal products and equipment sector Acaravci, (2015). However, the empirical study conducted in Tunisian firms found that there was no significant effect of the firm size on capital structure Ghazouani, (2013). The empirical evidence gathered on this subject determines that firm size had varying effects on the capital structure of an organization, Tomak, (2013) highlighted that the bigger the firm, the easier and more they are influenced to engage in debt finance. It is against this background that the current study will be able to determine whether the size matters as a determinant of capital structure decisions given that the case study in this research is well established large firm.

2.1.3 Tangibility

Theories of capital structure argue that the type of the assets possessed by the company has an effect on its capital structure choices Acaravci, (2013). The trade-off theory predicts a positive relationship between leverage and tangibility. A firm with more tangible assets is given first preference by financial institutions as well as by banks when securing loans as they act as better collateral security as compared to the intangible assets. Wahab and Ramli, (2014); Sangeeetha and Sivarathan, (2013); Zabri, (2012) and Wahab et al. (2012) in their studies agrees that tangibility is positively correlated to financial leverage based on the studies they conducted in their respective countries. Also the study done in Kuwait on listed companies also revealed a significant positive relationship as measured by the total debt to total assets ratio Gharaibeh, (2015). Chechet et al. (2013) in a study conducted in Nigeria's chemical and paint sector, tangibility was positively related to leverage but however, it was not significant. Anjan ,(2013) , in his study on the determinants of Capital structure on restaurant companies in Sri Lanka also revealed the existence of a positive association between tangibility and financial leverage of the firms.

When it comes to the Agency theory, a negative relationship between tangibility of assets and leverage is said to exist. Acaravci, (2013) in his study revealed that tangibility was negatively related to leverage. Tangibility was negatively related to short term debt and positively related to long term debt and total debt ratios Cekrezi, (2013). Serghiescu and Vaidean, (2014) indicates that for developing countries, the tangibility of company assets was negatively correlated with its debt ratio and suggested that a high level of tangible fixed assets does not give a permanent guarantee for creditors in case of default of the borrower. Extensive studies established a positive relationship and the positive relationship supports the prediction of the tradeoff theory which suggests that the debt capacity will always increases with the proposition of the tangible assets on the statement of financial position.

Harc, 2015 and Koksal et al. (2013) advocated that a negative relationship can be said to exist between tangibility and short term debt and argued that the long-term debt was positively related to the financial performance and the tangibility. Chidoko et al. (2012), in their study explained that the negative relationship between tangibility and debt was inconsistent with the trade-off theory and the agency theory as well. The current study involves an organization which has a high degree of tangibility since it well established and thus the motive of this study is to identify the relationship which exist between their tangibility and the long term debt finance decisions. The above studies were measuring the relationship between tangibility and debt finance using the long term debt as well as the short term and came up with varying correlations and for the purposes of this study the following hypothesis has been formulated:

H1 there is a significant relationship between tangibility and long term debt finance

2.1.4 Firm growth

The pecking order theory assumes a positive relationship arguing that firms considering growth will normally find the internally generated funds inadequate to cater for the expansion requirement and therefore will end up resorting to debt finance and issuing out equity finance. The empirical results which revealed a negative association between firm growth and leverage argued that most of the firms with growth opportunities consider assets that may add value to the firm but which are not subject to taxable income which therefore means that they do not acquire debt finance at first Cekrezi, (2013; Serghiescu and Vaidean, (2014); Zabri, (2012); Harc and Koksal et al. (2013). The empirical results from Acaravci, (2013); Pahuja and Sahi, (2012); Wahab and Ramli, (2014) and Ghazouani, (2013) revealed existence of a significant positive relationship between firm growth and the capital structure particularly debt finance. The explanation was that firms with high future growth opportunities use more debt financing as compared to internally generated funds and this was in line with the predictions of the pecking order theory. The result indicates that firm growth had different impact on capital

structure, no consensus has been reached on the exact impact that growth opportunities have and therefore the study seeks to determine the impact considering that the telecommunications industry has vast growth opportunities since it is a much more dynamic industry and also it seeks to add to literature in Zimbabwean context.

2.1.5 Liquidity

According to the results of the Indian study by Pahuja and Sahi, (2012), liquidity is said to be positively related to the capital structure especially the debt finance levels of an organization. Gharaibeh, (2015), also found a positive relationship in his study and argues that the more liquidity problems a company is facing the greater the chances of using external finance in a bid to reduce insolvency risk. The tradeoff theory suggests that organizations that have higher liquidity ratios, can borrow more due to their ability to meet the contractual obligations on time and therefore the theory predicts a positive linkage and relationship between the two variables. Using multiple regression analysis, Cekrezi, (2013) found liquidity to be positively related to long term debt finance. In another researches carried out by Sarlija and Harc, (2012) and Mansnoon and Saeed, (2014), the positive relationship was argued to be resulting from the fact that firms who has high liquidity attracts investors as there are associated with less risk of bankruptcy.

In Kenya, Gathogo and Ragui, (2014) found out that a negative relationship exists between financial leverage and liquidity supporting the assumption of the pecking order theory. Other researchers also found a negative relationship between the two variables Chidoko and Hove 2012 and Mutenheri and Munangagwa, (2015). In Albania, liquidity was also found to be negatively related to short term debt Cekrezi, (2013). Saurabh and Sharma, (2015) found that liquidity was empirically insignificant to determine capital structure in India manufacturing sector. Imtiaz et al. (2016) in their study in Bangladesh pharmaceutical industry found liquidity to be not an important determinant of the capital structure in Bangladesh. For the firms in

Romania which are listed on Bucharest, it was established that firms with high levels of liquidity were the ones borrowing less Serghiescu and Vaidean, (2014). In Zimbabwe, Chidoko and Hove, (2012), found a negative relationship between leverage and liquidity of which they did not examine and analyze the impact on telecommunication companies thus this study aims at establishing the influence that liquidity has on companies which are not listed.

2.2.0 To determine the impact of diversification on financial leverage

Diversification in an organization comes in two ways which are product or service diversification and geographical diversification Nyandoro, (2015). The impact of both forms of diversification has remained a controversial issue among different scholars as they bring out varying results in their empirical studies. The current study relates to an organization that has engaged in diversification following the changes in consumer taste from fixed land lines to mobile cellular.

2.2.1 Product or service diversification and financial leverage

Ajay and Madhumathi,(2012) stated that product and service diversification is now the most prominent strategy a business can employ to be able to stand the competition in this dynamic World of business. The co-insurance theory predicts a positive impact and influence as far as the level of financial leverage and the firm's product diversification are concerned. Naomi et al. (2015) highlighted that there are two theories which conjecture the relationship between diversification and capital structure and these are the agency and transaction cost of economics. The two theories however, predict and came up with differing suggestions related to different hypothesis. In accordance with the agency theory, a negative effect results between the unqualified product diversification and the capital structure particularly the debt finance. On the other hand the transaction cost of economics theory depicts diversification wholly depends on the level of specific assets.

Ajay and Madhumathi, (2012); Manrai et al. (2014) and Marana et al. (2016) indicated that for product unrelated diversification, a positive impact exists between leverage and diversification. The results of an empirical study conducted on 480 Spanish firms highlighted that four different types of debt ratios were used on diversification and these were logistic transformation of debt ratio, the total debt ratio, long-term bearing debt and the short-term and it was established that they acted as proxies for firm diversification Ajay and Madhumathi, (2012). Ajay and Madhumathi, (2012) further went on and hold other factors such as profitability and liquidity constant, and discovered that there was no significant association between the product diversification and the leverage levels. Naomi et al. (2015);Qureshi et al. (2012) and Olayiwola and Chechet, (2014) in the studies conducted in Pakistan and Nigeria respectively established that there is a positive relationship between product diversification and capital structure using correlation and regression analysis. It can therefore be established from their results that firms engaging in product and service diversification tend to have high degree of debt finance. La Rocca et al. (2013) and Militao, (2015) suggest that the association between leverage and diversification lies on the relatedness of the products. Militao, (2015) thus established that firms engaging in related diversification have lower debt finance as compared to those engaging in unrelated product diversification. It was established that an inverse association existed between financial performance of an organization and the impact of product diversification on financial leverage FoongYaung and Idris, (2012); Qureshi et al. (2012). Militao, (2015) pointed out that the link between the profitability level and debt across all diversified products strategies and profits had negative relationship with debt finance levels in particular the long term debt finance.

A positive connection between leverage and product diversification was established in a hypothesis test conducted by Rezaei and Azad, (2014) and O'Brien et al. (2014). Manrai et al. (2014) and Christiningrum, (2015) who used compound linear regression as an instrument for

analysis found out that there is a strong positive linear association between diversification and financial leverage. Manrai et al. (2014) in a study of Indian firms concluded that there was a positive relationship and this also agrees with the studies of Junior and Funchal, (2013) who also found a positive connection in their study in Malaysia.

The literature above expresses mixed findings with others saying a positive and others a negative while the few that found that no relationship existed and this has prompted a study to be carried out to fully determine the impact and association of debt finance and diversification of firms operating in a dynamic environment which requires diversification and product differentiation to beat up competition.

2.2.2 Geographic diversification and capital structure

Nyandoro, (2015) cited geographic diversification as another strategy to be used by businesses to reduce the risk of the whole business failing and for increasing the market share of the existing firms. The empirical findings of Wairimu, (2015) pointed out that for companies listed on the Nairobi Stock Exchange; a weak relationship existed between geographical diversification and the financial leverage of those companies. Ajay and Madhumathi, (2012); David et al. (2013); Doaei et al. (2013) and MauliTuaSitoris et al. (2014) found out there is a relative negative relationship between the two variables: capital structure and geographical diversification. Other studies for example, Manrai et al. (2014) established in their study that a positive relationship existed citing that once there is geographical diversification, products are also diversified calling for the need for issuing out of debt finance to fund the expansion. Geographically diversified firms tend to have high tangibility thus they have collateral security for acquiring loans and a positive relationship existence between the leverage and the diversification and this was pointed out in a research conducted by Qureshi et al. (2012). Firms engaging in geographic diversification target different regions and thus end up having a debt finance intensive capital structure Monteforte and Stagliano, (2012); Militao, (2015) and

Hilman, (2015). The authors have not yet reached a consensus as to how geographic diversification and financial leverage are related thus the empirical gap for the study to be done in Zimbabwe on a non-listed firm as this will help the firm in making concrete decisions on debt finance and diversification.

2.2.3 Diversification and financial performance (profitability)

In a study in Pakistan done using regression analysis it was established that a positive relationship exists between the diversification and profitability of an organization Sheikh and Wang, (2012). Wairimu, (2015) agrees to the above results and cited that highly diversified companies in Namibia were enjoying high earnings as compared to those not engaging in diversification. Manrai et al. (2014) highlighted that it takes proper care and planning of the diversification strategy for a firm to enjoy a positive relationship of profitability and its diversification. In Nigeria, it was established that moderately diversified firms are positively related to profitability Abdamu, (2013). However, Abdamu in the same study also found out that the highly diversified firms are likely to not enjoy high profits as the risks associated with diversification increases with the level of diversification thus a negative relationship. According to Ajay and Madhumathi, (2012), for Indian listed firms, a negative relationship exists between profitability and diversification. The impact and relationship between diversification and financial performance particularly profitability has not yet been established and concluded on and thus for the purposes of this study, the relationship will be established by using profitability ratios and a measure and the following hypothesis has been formulated based on the literature above:

H2 Diversification is positively related to profitability levels

2.2.4 The association between diversification and leverage when controlling other leverage determining variables

In a research carried out in Pakistan which was to determine the impact and association between diversification and leverage while controlling other leverage determinants such as tangibility, growth, size among others, it was established that leverage was significantly negatively impacting on diversification Haque, (2014). The result was in line with the agency theory which says that leverage provides disciplinary role for management and confines them from engaging in overinvestment activities which negates financial performance. Militao, (2015); Qureshi et al. (2012) and Rezaei and Azad, (2014) suggested the existence of a positive affiliation when controlling other determinants of the capital structure. It was established that when other determinants are controlled, diversification results in reduced financial leverage as the risk reductions associated may not be able to match with the leverage Panda, (2012) and Manrai et al. (2014). From the results of Khan et al. (2012), it was established that firms' growth potentials can either be a benefit or a loss and they could not tell whether there is a positive or a negative relationship. Gill et al. (2012), in the survey they carried out for Indian firms, were not able to conclude on the position of the relationship and remained neutral. Ajay and Madhumathi, (2012) suggested that firms vary from one firm to another in respect of leverage between domestic and multinational firms and were not able to ascertain the relationship as well. Doaei and Shavazipour, (2013) pointed out that the relationship between leverage and diversification when controlling other determinants has not yet been concluded and therefore the need to determine the impact that diversification has on financial leverage when all other determinants are held in a telecommunication industry as this is an important and growing industry in Zimbabwe.

2.3 Impact of debt finance on market share of an organization

This objective seeks to analyze the impact of debt finance on market share of an organization by imploring competition and market factors.

2.3.1 The association between capital structure and product market competition

The suggestion by Brander and Lewis, (1986) that leverage allows firms to engage and compete more aggressively still stands up to this date. They argued that the interaction between product market competition and financial leverage is complex and found the existence of a positive relationship in their study. Nickell, (2013) also established a positive relationship in his study by measure of total factor productivity. For firms in competitive leverage significantly benefit the firms and this conclusion was drawn from the South African firms after incorporating HHI and Tobin's Q as measurements techniques. In Tehran for the listed firms, a significant association was also discovered after using Tobin's Q and HHI for the 89 selected firms Moeinaddin et al. (2013). Lyandres, (2013) and Pandey, (2014) both in their respective empirical studies established that competition significantly impacts on financial leverage regardless of the competition type. David et al. (2012) in their study in New Zealand found out that using debt finance especially long term debt finance for parastatals results in increase in growth sale and relative decrease in ROA. The results of David et al. (2012) were for the parastatals considered to be monopolies and hence faces no competition and for the current study, the company is still government owned but has since seized to monopolize operations and is facing extensive competition, so the study will help determine the association which exist and this could be different from New Zealand's results. Long term debt was said to be positively related to the product market competition in India Sumitra and Malabika, (2012).

In other studies, it was however concluded that leveraged firms suffer a significant competitive disadvantage in their respective markets. Chevalier, (2015) provides evidence that if a firm increases its leverage, it also leads to the increase in market value of the competitors and also

revealed that this creates an opportunity for entry and expansion of new and existing competitors. Financial leverage was found to be constraining and restraining an entity's ability to invest in market share and that the highly leveraged firms end up charging higher prices especially during a recession and economic downturn Chevalier and Scharfstein, (2015). In concentrated or rather uncompetitive product markets, highly leveraged firms lose market share to their rivals Opler and Titmans, (2014). Using a sample of 200 Swiss firms, Beiner et al 2012 found financial leverage and product market competition to be negatively related. Moeinaddin et al. (2013) found nonlinear relationship as measured by Tobin's Q and short term debt ratios. Campello, (2013) established existence of a negative impact on relative to industry sales growth of firms in leveraged industries.

As far as impact and association between financial leverage and product market competition is concerned, few empirical results indicated that there was neither positive nor negative relationship. Heydarzadeh et al. (2013) in their study to determine the relationship between capital structure and product market competition found out that no significant relationship exist using different models and Tobin's Q. Xu, (2013) analyzing the data from 2003 -2011 in Netherlands, found out that no relationship exist between product market competition and financial leverage. Liao et al (2016) and Cheulho, (2014) both found out that there was no impact on leverage as a result of product market competition.

From the above discussion of the empirical literature no consensus has been reached as to the impact of product market share on the level of debt finance employed by an organization and also most of the results are from studies conducted on listed firms and accordingly, the researcher wants to fill up the gap by looking at it from a telecommunication and non-listed firms angle.

2.3.2 Product market competition, financial leverage and financial performance

Mahmoudzadeh and Seyfi, (2017) suggested that a competitive market and financial leverage results in increase in financial performance. The suggestion was made after finding out that the three variables were significantly positively related for listed firms in Tehran using the five years' data from 2009-2013. In another study to determine the relationship and impact of product competition and financial leverage on financial performance, the coefficient of competition level was found to have a positive significant effect on financial performance of an entity Soltani and Nemati, (2017). An empirical study conducted by Namazi and Ibrahim, (2012) revealed a positive relationship and impact between competition, financial leverage and corporate financial performance.

While the above found positive relationship, Bischoff and Achim, (2015) found after combining the vertical and horizontal levels of competition and long term debt that no relationship exists at all on the three variables.

Izadania et al. (2013): Heidapoor et al. (2015) and Datta et al. (2013), suggested that greater levels of competition will reduce the levels of discretionary accruals and result in decreasing revenues, existence of information asymmetry which then means that an extensive group of firms end up acquiring finance at relatively high finance costs as the explanations for the negative relationship they established.

From the above discussion of the empirical literature, it can be clearly appreciated that there is deficiency of adequate literature as to the impact of employing debt capital in a competitive has on financial performance industry and also no consensus has been reached. The researcher wants to fill up the gap by looking at it from a telecommunication and non-listed firms angle which is now operating in a competitive sector and has since been employing debt capital.

2.4 Impact of debt finance on financial risk

Higher levels of financial leverage are argued to result in higher levels of financial risk and this was established in a study carried out in Sri Lanka using the data from 2006-2015. The study which was on hotels found financial leverage to be positively correlated to financial risk Guranathna, (2016). Similarly, Hackbarth et al. (2013) found a strong positive correlation on financial risk and capital structure. Schwartzkopf, (2012) in his study found out that after the economic downturn in Germany, many firms resorted to high levels of debt finance to boost their businesses and this was the explanation for the positive relationship he established. In a different study in China, it was pointed out that financial risk increases with the continual use of borrowed funds Zhang, (2013). Fang, (2016) found a positive relationship and mentioned that once there is heavy debt, the probability of failure to repay also increases resulting to financial risk.

Despite the existence of a positive relationship or impact from various empirical results, Fu et al 2012, found out that financial risk was significantly and negatively correlated with debt structure together with the current ratio. Muchlis et al 2013 in their study to examine the effect of financial or credit risk on capital structure, found out that for the 20 banks and using data for the five years from 2006-2010, a negative relationship exists. They further advocated that financial risk is not only affected by the debt finance levels but also by the business and systematic risk hence the negative correlation. Halov et al 2012 in their study found that no relationship exists at all.

Financial risk is said to be influenced by the more the firms borrow and this includes the risks of high interest rates Fang, (2016). However, it has been argued that the interest charges are a benefit as they are tax deductible thus reduce the tax burden of the firm but in essence the financial charges has to be paid at the end and this poses a risk and increases financial risk.

Following the above argument, the researcher was prompted to research on why the firms continue to borrow when it increases financial risk and especially for those in the telecommunications industry which is a very dynamic industry: the benefits generated might not bend up matching the financial charges as the industry is highly related to obsolescence of the debt funded projects.

2.5 The impact of debt finance on financial performance

The impact of a capital structure consisting of mainly debt finance has had mixed results being reported and found out by different researchers. Quite an extensive number of researcher have conducted studies to determine the impact and the relationship between debt finance and financial performance as measured by ROA for example, Saeed and Gull, (2012) agrees with Antwi et al. (2012) in pointing out on the existence of a positive relationship. Despite the fact that there are those who agree on the positivity, Modi, (2014): Wachira, (2014) and Kondoyo, (2013) also are in agreement in saying that a negative relationship exist. The studies conducted have been separating debt finance into long term and short term to critically examine the relationship on financial performance as measured by profitability, ROA, ROE among other factors. For the purposes of this study, the researcher will determine the relationship on both long term and short term and financial performance will be measured by ROA. The argument for ROA is that it is a measure of how profitable a firm relative to its total sales.

2.5.1 Long term debt and financial performance

In a study conducted in Ghana using simple regression, it was established that long term debt was positively related to financial performance as the more debt the firms had, the more they recorded positive results in their performance Antwi, (2012). Similarly, Aliakbar, (2012) found a positive impact of long term debt finance on corporate performance in an empirical study conducted as a comparison on both the small and large firms listed on the Tehran Stock

Exchange and the results were established using Tobin's Q. Nirajini and Priya, (2013) found out that leverage and financial performance were positively correlated after analyzing financial statements of companies in Sri Lanka. After studying 100 companies which are listed on the New Zealand Stock exchange, Smith et al. (2012) established that leverage has a positive relation with the sale growth of an organization but also found that it decreases when measured against ROA. Akhtar et al. (2012) suggested that leverage significantly affects corporate financial performance and this was evidenced by the positive correlation between leverage and overall financial performance of the firms tested on. . Saeed et al. (2013) in a study conducted in Pakistan suggested that leverage significantly affects the financial performance as measured by ROA of banks positively.

Other studies however, contradict with the above results which found positive relationship for example Nikoo, (2015) using data from 17 banks for the five year period from 2009-2014, argued that even though debt finance is a way of increasing investment of firm it has a significant adverse negative effect on the overall financial performance of a firm. Ikapel and Kajirwa, (2017) in an empirical research conducted in Kenya on the impact of long term debt on financial performance of state sugar firms in Kenya suggested that long term debt negatively affects firm's financial performance as measured by ROA and therefore depicted that there is an inverse relationship existing between long term debt and financial performance. Kar, (2012) confirmed the agency theoretical claim that an increase in leverage is associated with an increase in profitability and the author concluded that leverage has significant positive impact on financial performance. Ahmad et al. (2012), with the motive of examining the impact of capital structure on financial performance of Malaysian sugar firms, depicted that there is a negative relationship arguing that the more the sugar firms borrow the more they record deterioration in their corporate financial performance which was considered using ROA.

The pecking order theory was supported by the results of an empirical study conducted on listed real estate firms in Thailand. The results showed that firms with higher profitability are associated with lower levels of long term debt and therefore financial leverage and financial performance is negatively correlated Tongkong, (2012). Javed et al. (2015) found total debt and long term debt to negatively relate to ROA and suggested that it is because firms tend to borrow less and maintain adequate funds generated internally. Abdul, (2012) conducted an empirical study in Pakistan to determine the relationship between capital structure decisions and the performance of firms found a significant negative relationship with financial performance as measured by ROA and Tobin Qs. Harwood and Cheruyoit, (2015) argued that as the proportion of long term debt increase the corresponding response is a decrease in the financial performance. In a more recent study in Bangladesh, using the return on assets and ordinary least squares, it was found out that financial leverage has inverse impacts on financial performance due to the existence of information asymmetry and the high cost of debt Siddik et al. (2017). Muritala, (2012) suggested that there is a significant negative relationship between leverage and ROA as a result the more the firm use debt finance the amount accrued through interests need to be paid back.

Khalaf-Al-Taani, (2013) found that there is weak relationship between leverage and financial performance that does not have impact on its ROA or firm's overall performance. Kausar et al. (2014) in the study conducted in Pakistan to empirically examine the impact which capital structure choice has had on firm performance by using both multiple regression and panel regression found that long term debt has weak to know influence on ROA . After analyzing the above literature the researcher has come up with the following hypothesis in which ROA will be the measure used:

H3 Long term debt is negatively associated with ROA

Even though the empirical literature on impact of debt finance on financial performance is novel, there seems to be limited literature on non-listed companies and therefore the researcher seeks to determine the relationship that exist between long term debt and ROA as this has not yet been concluded on whether there exist a positive or negative relationship.

2.5.2 Short term debt and financial performance

Mwangi, (2012) in a study to examine the effect of financial structure on the financial performance of firms listed at the Nairobi Stock Exchange pointed out on the existence of a strong positive relationship between short term debt financing and the firms' ROA, liquidity, and ROI. Salazar et al. (2012) argued that loans with short term maturities helps firms to meet the current and immediate financial needs and also that the financial cost related are usually low thus promoting growth and profitability and therefore established that there is a positive relationship. Weinraub and Visscher, (2013) in their study on debt financing established that total and short term debt is positively related to firm's profitability and also pointed out that short term debt is positively related to tangibility and this suggest that these firms do not have collateral and are not in a position to acquire long term debt finance. According to Teruel &Solano, (2014), short-term debt is positively correlated with firm's growth opportunities, profitability and the overall financial performance. Adesina and Inwidiobe, (2015) conducted an empirical study in Nigeria on the impact of debt finance on financial performance of listed banks using profit before tax as the dependent variable and debt as the independent variable and found that there is a positive relationship between debt and profitability.

Shubita and Alsawallah, (2012) argued that increase in short term debt finance is associated with decrease in firm profitability and they concluded that a significant negative relationship exists. Ferati and Ejupi, (2012) agreed that there is inverse relationship between short term debt and profitability suggesting that firms that firms which employ short term maturity means of

finance normally wants to stabilize their liquidity position thus it lowers the profitability. Ronoh, (2015) suggested that there is a significant negative relationship between financial leverage and financial performance. Ebaid, (2013) who sought to establish the relationship between debt level and financial performance of companies listed on the Egyptian stock exchange found out that there was a negative impact of short term debt on return on assets. In another study by Maina and Kondoyo, (2013), a negative relationship and impact was established between short term debt and tangibility. In Nigeria a study was conducted on the impact of capital structure on the financial performance on thirty listed firms and having used ordinary least squares to analyse the data, it was established that short term debt has a significantly negative impact on the financial performance as measured by ROA Osuji and Odita, (2014). Using a bigger sample of seventy six firms listed on the Amman stock market for Jordan public firms, a significant negative impact was established as well Mustafa & Osama, (2015). For the purposes of this research, the researcher will be guided by the following hypothesis and this formulated after considering the argument of the literature above in which mixed results were established. The measure in this instance is profitability as short term is arguably said to meet the liquidity and increase the revenues of an entity.

H4 short term debt and profitability are positively and significantly related

From the above empirical literature, it can be deduced that there is no verdict as to the impact of short term debt on financial performance as the results gave mixed and differing impacts and relationship. The studies also were mainly conducted on firms that are listed and accordingly the researcher intends to focus on non-listed firms in Zimbabwean context.

2.6 Chapter summary

This chapter reviewed the literature on the debt finance and capital structure decisions in relation to financial performance. The literature and mixed findings and results, the basis on which the researcher was motivated to conduct studies to determine the relationship existing between debt finance and financial performance through a number of objectives which include diversification, determinants of capital structure and the impact of financial risk. In reviewing the literature, the researcher was able to analyze and formulate hypotheses to aid in the execution of the study. The following chapter will give an outline of the research design and methodology to be used in accessing the data.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

The preceding chapter gave an outline of the related literature in trying to track down the impact of debt finance on the financial performance. The literature was reviewed based on the objectives and hypothesis drawn out in chapter 1. This chapter aims to describe and give an insight of the research design and the procedures to be employed in data collection to as to fully answer the research questions and achieve the objectives of the study that were highlighted in the earlier stages of the study.

3.1 Research approach

Saunders et al. (2012) defined research approach as a plan or proposal to conduct research and this involves the intersection of philosophy, research designs and specific methods. In research there are basically three approaches as averred by Creswell, (2012) and these are namely qualitative which is basically for exploring and finding the meaning that individuals and groups ascribe to a social or human problem, quantitative approach which was argued to be an approach for testing objective theories by examining the relationship among variables and lastly mixed method approach which is an approach to inquiry involving and incorporating both the qualitative and quantitative method and integrating the data. Creswell, (2012) suggested that for a research in which more accurate results are to acquired it is better to use the mixed method as it incorporates both the qualitative and quantitative aspects thereby increasing the likelihood that the research gains more to near accurate results. Following the advantage in the previous statement, the researcher was prompted to use the mixed method approach to increase the extent of accurate and more reliable results than when a single method is incorporated. The nature of the study was basically correlational and this meant that the

quantitative aspect in the mixed method research was used best for addressing the relationship between debt capital and the financial performance s was measured using ROA in the study.

3.1.1 Justification for mixed research approach

The researcher chose to employ a mixed research approach based on the advantages that were averred for by authors such as Creswell, (2012) and Cameron, (2014). Both Cameron, (2014) and Creswell, (2012) suggested that for a more viable research results and to be able to make solid recommendations, the mixed approach is the best approach as it provides strengths that offset or neutralises the weakness of each of the qualitative and quantitative approach. The researcher in this research also used the mixed research approach to be able to gain results which allows for sound recommendations to be made as the bias of interpretations was reduced. The mixed approach was also used to enable the researcher to comprehensively and completely get an understanding of the research problem than when a single approach was used Creswell, (2012). In the current study, the approach used was a result that it assisted in provision of an approach that developed a better and a more contextual set of instruments and this was also in tandem with the reason argued for in a research by Shubitta and Alsawallah, (2012). Employing and incorporating the mixed approach design helped the researcher in fully understanding both the 'what' and the causal questions and consequently ended up being able to analyse and present the data without facing challenges.

3.2 Target Population

Kinmond (2012) suggested that the research population are different elements combined together in which the research samples are derived from .The target population included all the directors and executive members of TelOne Pvt Ltd, top management in finance department as well as other employees who are relevant to the study not forgetting those employees in the audit and risk department. For the purposes of this study, the population was drawn from the

finance team and the audit and risk as these are considered by the researcher to be very knowledgeable parties as far as decisions related to capital structure of the organisation are concerned. However, other employees whose information might add value and help the researcher to gain full understanding of the research were also not left out.

Table 3.1 Target population

Population identity	**Size**
Directors and executives	5
Top management	10
Other relevant employees	15
Total population	30

Source research 2017

3.3 Sampling

Bernhard and Baillie (2013) averred that in research, for more valid and reliable data, researchers have to use a large sample. Ceteris paribus, samples are more ideal when the population is large enough to an extent that the researcher will not be in a position to exhaust and collect data from all the population. In this study, the researcher used stratified random sampling technique. Valliant et al. (2015) argued that stratified random sampling is an important technique in sampling and prevents the dispersion of sample across group members in the population. In an investigation by Jing et al. (2015) to prove and test for the best method for collaborative clustering averred for stratified random sampling in that it allows data to be collected and analyzed based on the different groups and thus giving room for a much more detailed results. Fletcher and Scofield (2015) also agree to the above by highlighting that it

enables the population to be grouped into different strata based on the nature and similarities in the execution of their duties. Kumar (2011) suggested that the researcher attempts to group the population in such a way that it is not homogeneous. It is against this background that the researcher was motivated to use stratified random sampling as the research is best answered when the respondents and population are grouped according to the nature and similarities in their jobs. In this study the population was stratified into directors or executive, top management and other relevant employees. Stratified sampling method incorporates the necessary and most relevant population into the sample making it easier for information to be obtained from those individuals who are directly on the ground as far as the research is concerned. The sample size was not homogeneous as it incorporated different personnel that are valuable in the carrying out of the research and this study was confined to twenty individuals comprising of directors, management and relevant employees and this was motivated and similar to the sample size used by Gellantly et al. (2012) who also carried out a study on capital structure decisions in Canada.

Table 3.2 Population and sample size

Participants	**Population**	**Sample size**	**Percentage of sample to population**
Directors and executives	5	3	60%
Top management	10	8	80%
Other relevant employees	15	9	60%
Totals	30	20	66.67%

Source research 2017

Table 3.2 above shows the targeted population from each strata of study and the corresponding sample size representing the whole population. Larger sample sizes were used by the researcher so as to get reliable and valid data, Bernhard and Baillie, (2013). The sample size of more than 50% was advocated for by Bryman (2014). He argued that as long as more than half of the accessible population have been contacted and gave feedback then the results can be relied on as they can fully represent a significant level and number of the population and it is against this background that the researcher was able to use also results from more than 50%.

3.4 Sources of data

Data was collected by way of both primary and secondary data. Primary data was necessitated by interviews and questionnaires whilst secondary data was extracted from the financial statements available on the company's website.

3.4.1 Primary sources of data

Primary data is data which is collected for the first time by the researcher and cannot be found in any other sources. Allmer (2012) explains that primary data refines the secondary gathered data for the research in question. In this study of TelOne Ltd gathering raw data helped in evaluating and comparing the thoughts of various individuals and what was portrayed in the secondary data (financial statements). Interviews and questionnaires are the methods that the researcher used in collecting primary data. Primary data sources were used as the researcher found it suitable for best outcomes regarding the problem at hand as it required first-hand information. Salvia and Terhoar (2014) advocated that primary data is original data collected to solve the prevailing problem under study. The main benefit derived from primary data sources is that it is current and suits the intended need of the researcher.

3.4.2 Secondary sources of data

The secondary data is the data which collected from other sources and the information is not the first hand information to the researcher Allmer, (2012). The secondary data was extracted from the company's financial statements and audit reports both. The secondary data was easy to gather as it was readily accessible on the company's website and portal making it easier for the researcher. The area of focus pertaining the secondary extracted from TelOne Ltd's books and statements was the levels of debt, revenues and profitability levels as the information was relevant for the problem and research.

3.5 Research instruments

Rusere, (2012) defined research instruments as tools and strategies that equips one to investigate the research under study. The research instruments mainly helps a researcher be provided with information which cannot be found on public sites and gather the views of different individuals on a problem Creswell, (2012). In gathering information on opinions and attitudes on personnel relevant to the study, the researcher employed questionnaires and interviews to tackle the research problem and this helped the researcher in making evaluations based on different responses provided by the population regarding the impact of debt finance on financial performance of TelOne Ltd as measured by ROA.

3.5.1 Questionnaires

The questionnaires were mainly used for gathering of primary data. Since the design employed in the study comprised of a statistical nature, the questionnaires were designed in such a way that the statistics were also included for the respondents and this made it easier for the analysis of the data and interpretation. The main objective of the study was to determine the impact of debt finance on financial performance and the nature of that objective required quantitative

analysis thus the researcher chose to structure closed ended questionnaires. In order to achieve different opinions on capital structure, Likert questions were mainly used and the researcher was provided with facts following the list of answers set for the respondent to choose from and this was in line with the suggestions of Chang, (2012) who alluded that the respondent is required to choose from a list provided by the researcher.

3.5.2 The Likert scale

The assignment of a number in predetermined decision categories expected from the participant makes the Likert scale, Erwin (2014). Johnson and Renner (2012) argued that the perceptions of the population in research are easily measured using a survey instrument with Likert scale. The Likert scale was employed for data collection and a rating system to enable respondents to show the extent to which they agree or disagree was provided for, Sang Long et al. (2013). The provision of the rankings and rating system was alluded for by Griffin, (2013). The researcher was able to present the data systematically and draw conclusion relevant for presentation by way of tables, charts and graphs.

Table 3.3 Likert scale

Attitude	**Strongly agree**	**Agree**	**Neutral**	**Disagree**	**Strongly disagree**
Points	5	4	3	2	1

Source: Creswell, (2012)

Table 3.3 shows the five different predetermined categories of respondents' decisions and their respective assigned value.

3.5.3 Interviews

Interviews were conducted to get an insight and understanding of different views of the population interviewed. Cooper and Schinder, (2013) highlighted different forms of interviews and argued that in-depth interviews are conducted to exchange ideas and opinions through phones, internet facilities, written and face to face communication. The research used face to face interviews to obtain information relating to the research questions. The interviews conducted in this research were oral interviews and to reduce the risk of having mixed information, the researcher made use of an interview guide and also made sure that the responses were captured down and recorded to avoid loss of data or missing important information.

3.6 Validity

Validity in research refers to the credibility and the level of believability of the research data and information Bryman, (2012). To enhance validity of the information, this research employed the data triangulation method. This method was chosen because it is the best when a mixed approach has been used in data collection Aloka, (2015). Yeasmin and Rahman (2012) and Tsalapatas et al. (2014) averred triangulation is a method which improves and augments validity of data by incorporating several methods in data collection and the information can be compared for similarities and differences. In the current study of TelOne, the researcher incorporated both interviews and questionnaires and was able to ascertain the differences and similarities of the data thereby increasing the credibility of the data.

3.6.1 Reliability

Reliability is the consistency and the degree of uniformity of the research responses by the respondents Hsioa, (2014). Tsalapatas et al. (2014) argued that reliability can be ensured

effectively when respondents can answer freely without fear of being known. The questionnaires used in this study respected anonymity of respondents by not asking them to disclose their personal details and this enabled the researcher to rely on the information provided.the research also ensured reliability by gathering data from few respondents who are directly involved in the capital structure decisions of Telone Ltd and this was motivated by Plonsky and Gass, (2012) who suggested that fewer respondents are reliable and more preferred as compared to numerous respondents that lack reliability and power.

3.7 Ethical considerations

The data collected from TelOne was for the purposes of the research alone and not for any other purposes. The researcher sought permission first to carry out research at the organisation and respected the confidentiality policy of the organisation. To ensure confidentiality, data collected was kept safely and not shared with any other individual other than the supervisor of the researcher.

3.8 Data presentation

Stimpson and Smith (2015) cited various methods which can be employed to present data and these includes graphs, tables, charts and maps. The raw data were first arranged in tables and tallied as per respondents' answers, these were summed up and the frequencies collected. The researcher then embarked on a more detailed and fine-grained analysis of the collected data. The data were compared, categorized, patterns and trends identified, divergent responses, possible explanations and propositions recorded and presented using various objects such as tables, charts and graphs.

3.8.1 Data analysis

Allmer (2012) explained data analysis as the explanation of given data and information in such a way that decisions and conclusions can be made without difficulty and the information will be easy for anyone to understand and grasp. The study employed inferential statistics (linear regression and Pearson product moment correlation) to ascertain the impact that debt financed has on the financial performance of the organization. The multiple linear regression model used was consistent and similar to the one used in the studies by Ikapel and Kajirwa, (2016); Habib et al. (2016) and Innocent et al. (2016). The model used in this study was as given below:

$$ROA = \beta o + \beta LTD + \beta STD + \beta TAN + \beta DIV + \varepsilon$$

Where

ROA is the dependent variable and the measure of financial performance

βo is the intercept

LTD is the long term debt

STD is the short term debt

TAN is tangibility

DIV is diversification

ε is the error term

The data collected was compiled, sorted, edited, classified and analyzed using a computerized data analysis package known as Statistical Package for Social Sciences (SPSS) version 20 and Excel.

3.9 Chapter summary

The chapter focused on the approaches to research that suited the objective of the study. Justifications for the choice made for each research instrument used was elucidated. The population under study was discussed and the basis for ideal sample size was given. Techniques used to collect data was also outlined and justified. The chapter that follows shall be on data presentation, analysis and interpretation.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter focused on data presentation and analysis of the objectives described in chapter 1 whose literature was reviewed in chapter 2 using the research methodology which was highlighted in the preceding chapter. The data presented and analysed was both quantitative and qualitative as gathered using the instruments: questionnaires and interviews for the primary data and the secondary data which was extracted from the books and financial statements of TelOne Pvt Ltd.

4.1 Response rate for questionnaires

Table 4.1 questionnaires response rate

Description	Population	Fully answered	Unanswered or spoilt	Response rate %
Directors	5	3	0	60
Top management	10	7	1	70
Relevant employees	15	7	2	47
Total	30	17	3	57

The table above shows the responses rate of the questionnaires distributed to the different population groups of TelOne Pvt Ltd. The researcher distributed 20 questionnaires and of the twenty, 17 were answered fully and returned to the researcher which gave rise to a response rate of 57%. The response rate was expressed as a percentage of the target population of the study and 57% was accepted following the justification by Bryman, (2014) who argued that

anything above 50% gives reliable results as more than half of the population will have responded.

4.2.1 Determinants of capital structure

The first objective of the study was to determine the determinants of capital structure decisions of TelOne. The researcher distributed questionnaires to directors, top management and other employees who were considered to be relevant for the purposes of the study and the results from the respondents were discussed below.

4.2.1.1 Profitability

The study sought to determine and establish whether TelOne Pvt Ltd.'s debt capital was influenced by the levels of profitability. The profits of the organisation have been on the decrease over the years yet the company still experienced high levels of debt finance at the time the study was conducted, so the motive of the study was to establish the extent or degree to which the capital structure decisions of TelOne is influenced by the profitability levels

Table 4.2 Profitability responses

Description	Frequency	Rate %
Strongly agree	**2**	**11.8**
Agree	**3**	**17.6**
Uncertain	**1**	**5.9**
Disagree	**11**	**64.7**

The data above shows that 2 out of 17(11.8%) strongly agrees that profitability is a determinant of debt capital decisions in TelOne, 3/17(17.6%) simply agreed, 1 of the 17 were not certain representing a 5.9% and 11 out of the 17 (64.7%) disagreed that the profitability is a determinant of debt capital. There were none who strongly agreed.

Those who agreed became 5/17(strongly agree 2 + agree 3) 29.4% and this entails that they thought that for TelOne to be in a position to borrow it was as a result of the profitability. The results of the ones who agreed concurred with the results of Chang et al. (2014) who found profitability to be the most prominent factor determining the capital structure of Chinese firms. Of the total population, only (1/17) 5.9% were not certain as to the influence of profitability on capital structure decisions and this meant that profitability can either influence or not influence capital structure decisions in the organization. The uncertain population was in synch with the results of Hansen, (2013). The results found out that (11) 64.7% of the population were in tandem with the results of Tomak, (2013) and Wahab, (2012) who in their studies found out that profitability was not a prominent determinant of capital structure and this meant that the organization can still borrow funds even if they are making huge profits and also that profitability levels do not determine the borrowings of the organization.

The results of this study suggest that the modal of (11 out of 17 disagree) 64.7% were of the view that profitability does not determine the debt capital of TelOne which meant that the company borrows due to lack of adequate profits (internal funds) and the researcher was able to deduce that profitability was not a determinant of debt capital in TelOne following the marked deterioration in the company's profits yet it still was able to acquire debt capital. The modal results of those not agreeing that profits determine capital structure was in line with the results of Yolanda and Soekarno, (2012) who advocated that capital structure decisions are not influenced by profitability.

4.2.1.2 Firm Size

The motive of the objective was to determine the extent to which firm size was considered an important factor in capital structure decisions. The frequencies and rates of the responses as measured using Likert scale are shown below.

Table 4.3 Firm size

		Frequency	Percent
Firm size	strongly agree	9	52.9
	Agree	3	17.6
	Uncertain	1	5.9
	Disagree	2	11.8
	strongly disagree	2	11.8
	Total	17	100.0

Source research data 2017

The findings in the above table shows that 9 out of 17 (52.9%) strongly agreed while 3 (17.6%) agreed. Of all the respondents, only 1 (5.9%) were not certain. Those who strongly disagreed were 2 which was (11.8%) and 2/17 (11.8%) disagreed.

Cumulatively, (12/17) 70.5% were in agreement that firm size was a determinant of capital structure decisions in TelOne. This means that since it is a well-established large organization, they are able to attract investors and acquire loans even from the foreign countries and this was also evidenced by the greater volumes of foreign debt capital in the secondary data information. The greater portion of the respondents who agreed were consistent with the results of the study carried out in Korea from which it was found that large companies are in apposition to exploit economies of scale in their borrowings and are considered to be less prone to bankruptcy Choi, (2012). 1/17 (5.9%) of the study respondents was not sure whether firm size matters in the capital structure decisions. The aggregate of 23.6% represented those who disagreed that firm size was a determinant in capital structure decisions and this meant that if a firm is large and well established the internally generated funds are able to fund the company projects. The

results of those who disagreed were commended by the study of Tomak, (2013) who found out that firm sixe did not matter in debt capital decisions.

In terms of measures of dispersion, 70.5% (12/17 who agreed) was the modal response of those who were in agreement that firm size plays an important role in the capital decisions of an organization can also be linked to the results of Babalola, (2013) and Almajali, (2012). The mode who agreed meant that the bigger the organization the more it can easily borrow as bigger organization have more collateral.

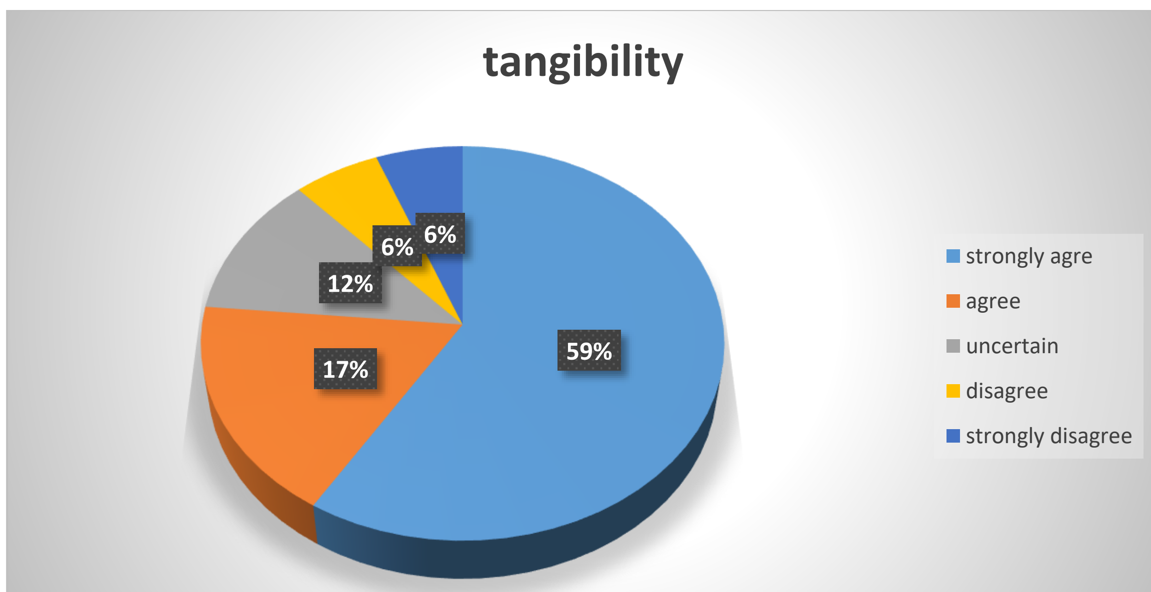
4.2.1.3 Tangibility

Table 4.4 Tangibility

		Frequency
Tangibility	strongly agree	10
	Agree	3
	Uncertain	2
	Disagree	1
	strongly disagree	1
	Total	17

Source research data 2017

Fig 4.1 tangibility



Source research data 2017

The above table and figure shows the results from the respondents on tangibility as a determinant of debt capital of an organization TelOne.

10/17 (59%) strongly agreed, 3/17 (17%) agreed while 2/17 (12%) were uncertain as to the influence of tangibility on capital structure. 1 out of 17 (6%) disagreed and 1/17 (6%) strongly disagreed.

10 respondents out of 17 representing 59% strongly agreed while 3 (17%) agreed that tangibility is a determinant of debt capital decisions in the organization. These responses formed the modal responses and the highest rate of 76% which implies that the more tangible assets the organization has, the more likely it is to have a greater portion of debt finance in their books. The notion was also supported by the studies by Sivarathan, (2013) and Zabri, (2012) who advocated that tangibility allows firms to be given first preference when acquiring loans as the assets acts as better collateral security. The researcher also linked the responses of those in agreement to the secondary data and established that indeed it was an important factor as the organization in the study has high tangibility.

The uncertain group comprised of 2 respondents (12%) and this group was not sure and could not give a position as to whether the capital decisions in TelOne were as a result of considering the tangibility of the company's assets. It was also in line with the study results of Wahab and Ramli, (2014) who also concluded that the influence of tangibility could be ascertained as to be positive or negative.

2 of the 17 (12%) disagreed (1 disagreed and 1 strongly disagreed) that tangibility influences debt capital decisions in TelOne. This meant that assets are not considered as important by lenders especially that much of the assets of the organization are nearly outdated. Koksal et al. (2013) in their study also established that tangibility does not influence capital structure decisions as firms may be highly tangible with valueless assets.

4.2.1.4 Firm growth

Table 4.5 firm growth

		Frequency	Percent
Firm growth	strongly agree	2	11.8
	Agree	11	64.7
	Disagree	4	23.5
	Total	17	100.0

Source raw data 2017

The respondents who strongly agreed that firm growth potentials were 2/17 (11.8%) and 11 out of the 17(64.7%) agreed that firm growth is a determinant of capital structure decisions in their organization. Only 4 of the 17 (23.5%) disagreed that the capital structure was determined by the firm growth. There were none who were uncertain as well as none who strongly disagreed. Cumulatively, the rate of those who agreed reached (13/17 [2 strongly agree and 11 agree])76.5% and this implies that once a firm has potential to expand and grow further, there is room for acquisition of debt capital and also that they are able to attain the loans as they are given first preference. The available literature from Wahab and Ramli, (2014) supported the same notion of having first preference.

In this current study, (4/17)23.5% of the study were of the same conclusion given by Cekrezi, (2013) that the firms do not acquire debt capital basing on the potential growth of the company arguing that the want to avoid finance charges as much as is possible to be able to expand fully.

The 76.5% (13/17 agreed) formed the modal response of this objective and this was in line with the findings of Ghazouani, (2013) who in their study more than half the population was of the view that potential firm growth influenced debt capital.

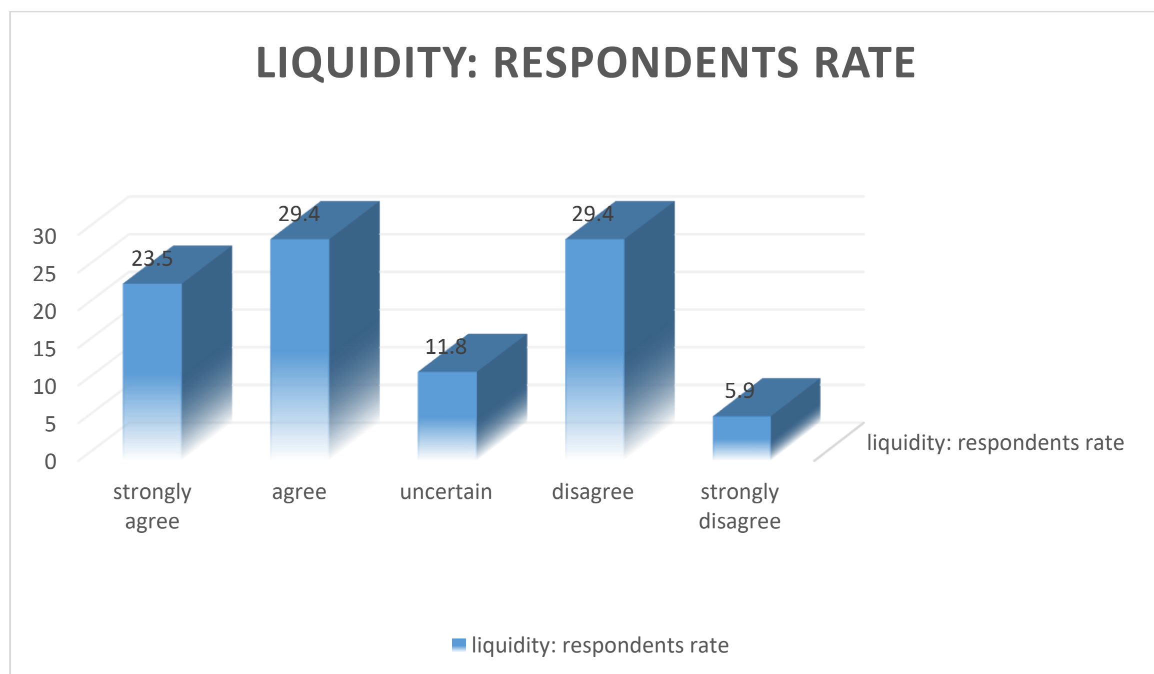
4.2.1.5 Liquidity as a determinant of capital structure in TelOne Ltd

Table 4.6 liquidity

		Frequency
Liquidity	strongly agree	4
	agree	5
	uncertain	2
	disagree	5
	strongly disagree	1

Source rsearch data 2017

Fig 4.2 respondents' rate on liquidity



Source ressearch data 2017

The above table and figure represents the frequency and the rates of the respondents as far as liquidity is considered a determinant of capital structure. 4/17 (23.5%) strongly agreed while

5/17 (29.4%) agreed. 2 out of 17 (11.8%) were uncertain. 5/17 (29.4%) disagreed whereas 1 of the 17 (5.9%) strongly disagreed.

From the presentations above it can be noted that of the 17 respondents, 4 (23.5%), strongly agreed whereas 5(29.4%) agreed that liquidity determines capital structure decisions of TelOne. The implication is that the more liquid a company is, the greater the chances and preference they are given in acquiring loans as the risk of bankruptcy is low. When the above are combined they add up to 52.9% and this implies that over half of the population agrees that liquidity is a determinant of capital structure decisions as was the case with Cekrezi, (2013); Sarlijia and Harc,(2012) and Mansoon and Saeed, (2014). Those who strongly agreed and agreed formed the modal class (9/17) giving rise to the conclusion that in TelOne, liquidity is a determinant of debt capital decisions.

The results further reveal that 2 of the 17 (11.8%) were not sure as to the role played by liquidity in the company in relation to the capital structure decisions. From this, it was deduced that the respondents were not very sure on whether their organization borrows because it is highly liquid or because it wants to reduce insolvency risk.

From the above presentations of the table and figure, 5 of the 17 (29.4%) were disagreeing that the debt capital decisions of the organization are as a result of liquidity. 1 of the 17 (5.9%) strongly disagreed. When combined together the rate of those who disagreed landed at 35.3% and this meant that the organization when highly liquid did not chose to source from external sources but resorted to the internally generated funds and the same notion was supported by the literature of Serghiescu and Vaiden, (2014) who alluded that for the listed firms in Bucharest, firms which were highly liquid were the ones with less borrowings. It should be note that in Zimbabwe, a similar study was conducted by Chidoko and Hove, (2012) on listed firms and it was discovered that there was a negative association between leverage and liquidity

and to contrary to their results, this study found liquidity to be a determinant of leverage decisions for the non-listed firms in Zimbabwe by using the results of Tel One Pvt Ltd.
The modal was 9 (4 strongly agree and 5 agree) and this meant that more liquid organisations borrow more and are given preference as they are less prone to bankruptcy and this was consistent with the results by Gathogo and Ragui, (2014) and Saurabu and Sharma, (2015) who also suggested that liquidity plays an important role in debt finance decisions.

The motive behind the first objective was to fully determine the factors that determine the capital structure of TelOne. The study found firm size, tangibility and firm growth to be the most important determinants in the organization as they yielded the highest rankings of 70.5 %, 76.4% and 76.5% respectively. This conclusion is line with the literature of Nijenhius, (2013) who pointed out that tangibility, size, growth, profitability among others to be the most identifiable and popular determinants of capital structure decisions. However, contrary to Chang et al. (2014) who pointed out that profitability and taxation strongly influence debt capital decisions, the results of the study found the two factors to be the opposite of the empirical results as respondents disagreed that constituted 64.7% and 88.2% in terms of profitability and taxation.

4.2.2.0 To determine the impact of diversification on financial leverage

The objective sought to critically examine the impact of diversification on the financial leverage of TelOne. This was because the organization operates in a dynamic industry in which the goods and services have to be diversified in order for the organization to maintain and boost its financial performance as measured by its revenues, profitability and return on investment among other measures.

4.2.2.1 Product diversification and debt capital or financial leverage

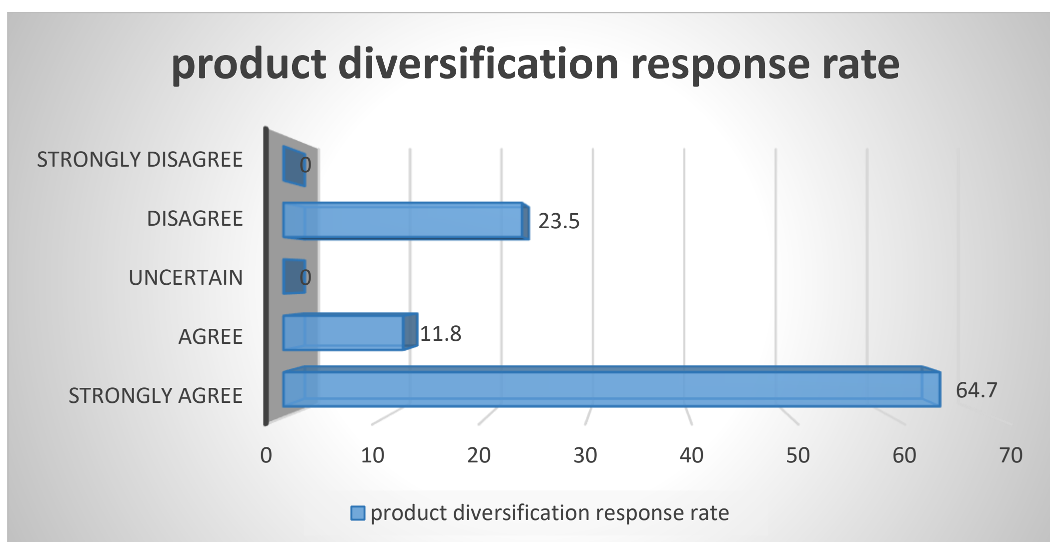
Questionnaires were administered to different individuals in the organization with the motive of establishing whether the debt capital of the organization increases as a result of engaging in product diversification following that the organization has diversified its services. The findings and results from the responses of the questionnaires are given below in table 4.9 and the figure below.

Table 4.7 Product diversification

		Frequency
product diversification and financial leverage	strongly agree	11
	Agree	2
	Disagree	4
	Total	17

Source raw data 2017

Fig 4.3 product diversification and financial leverage



Source research data 2017

The above table and figure shows that 11 out of 17 (64.7%) strongly agreed, 2 (11.8%) agreed. Of all the respondent, none were uncertain as to the impact that product diversification has on the financial leverage of the organisation. While there were no respondents who strongly disagreed, 4 (23.5%) disagreed.

The cumulative frequency and rate of those who agreed adds up to 13 and 76.5% respectively. The results indicate that once the organisation decides to diversify then the decision to increase external funding by way of debt capital prompts up and this is because product diversification requires additional strong base of capital. The findings of the current study were the same as the view shown by the empirical study of Olayiwola and Chechet, (2014) who purported that those firms which yielded positive diversification, their debt capital ratios were extensively highly which means that there a positive affiliation between the two variables.

4/17 (23.5%) of the respondents disagreed that debt capital of the organisation was influenced or related to diversification of the organisation. This was consistent with the findings of FoongYaung and Idris, (2012) who concluded that there was a negative association between diversification and financial leverage.

The modal of 13/17 meant that diversification is an initiative which requires capital and the organization ends up resorting to external debt finance as it cannot issue shares because it is not a listed company. The empirical literature of Qureshi et al. (2012) also established that when firms engage in diversification, the corresponding result is an increase in debt finance levels especially when the organizations are parastatals.

4.2.2.2 Impact of geographic diversification on capital structure.

The objective was aimed at determining the impact of geographic diversification on the capital structure paying particular attention to debt capital. The findings from the questionnaire are given below and the discussion there forth.

Table 4.8 Geographic diversification and capital structure

		Frequency	Percent
geographic diversification and capital structure	Agree	1	5.9
	Disagree	13	76.5
	strongly disagree	3	17.6
	Total	17	100.0

Source raw data 2017

The above results from the questionnaires indicates that 1 of 17 (5.9%) agreed that geographic diversification has an impact on debt capital. 13 (76.5%) disagreed and 3 (17.6%) strongly disagreed. There were none who were uncertain as well as 0 strongly agreed.

The meaning derived from the (1/17) 5.9% who agreed was that geographic diversification is more of an expansion which thus requires an entity indulging it to boost its capital as the internally generated funds are mostly not sufficient and this was also commended by the results of the study by Manrai et al. (2014). From another angle, the results of the study respondents who disagreed 94.1% suggests that when a firms decides to venture into geographic diversification, it is because it has a sound and well boosted financial ground to fund the initiative. The modal class of those who disagreed can also be linked to the available literature of Ajay and Madhumathi, (2012); MauliTauSitoris et al. (2014) and Doaei et al. (2013) who pointed out that geographic diversification is capital intensive and hence firms who embark on it, do not usually fund it using debt capital but equity as they want to avoid finance charges related to the high debt which will be required.

The researcher basing on the questionnaire responses concluded that geographic diversification is not associated with debt capital and this was evidenced by the modal rate of more than 90% of the TelOne respondents.

4.2.2.3The impact of diversification on financial performance

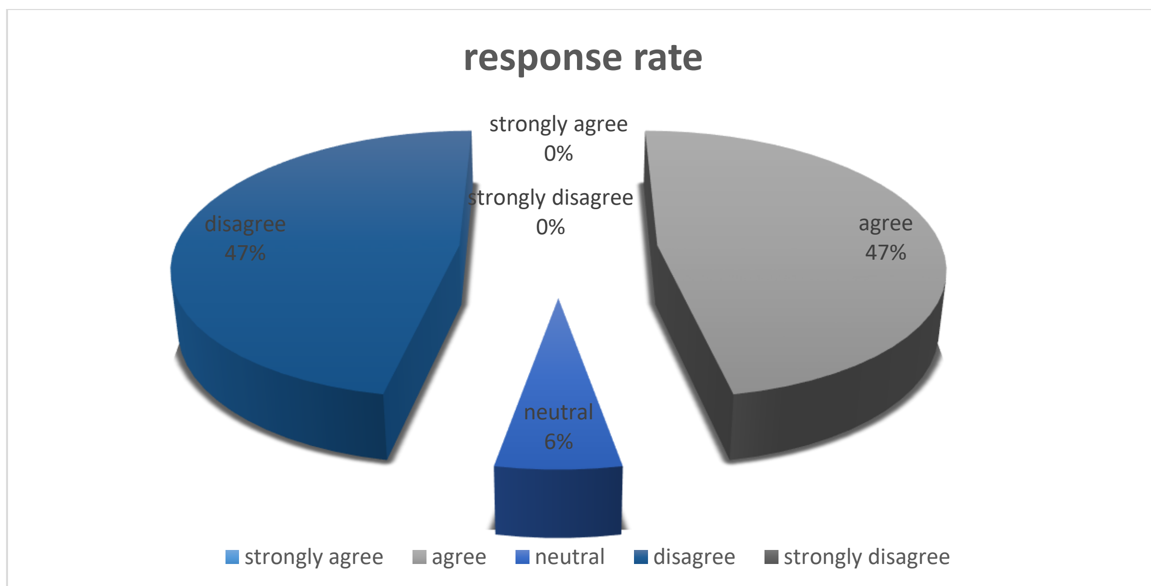
The motive of the study on this area was to ascertain whether diversification as a whole has any bearing on the profitability of TelOne. It was aimed at finding out if profits increase when it embarks on diversification. Findings of this objective are stressed out below.

Table 4.9 diversification and profitability

		Frequency
product diversification and financial performance as measured by profitability	Agree	8
	Neutral	1
	Disagree	8
	Total	17

Source primary data 2017

Fig 4.4 Diversification and profitability



Source raw data 2017

The respondents were asked through the questionnaire to bring out their views on whether diversification has a bearing on profitability of the organisation and 8 of the 17 (47%) agreed that indeed it has a bearing. The uncertain group was made up of 1 (6%) and 8 (47%) disagreed that it has a bearing. There were none who neither strongly agreed nor strongly disagreed.

It should be noted that almost half 47% were in agreement that once diversification has taken place, the impact is eminent in the profitability levels. Wang, (2012) in his study in Pakistan found out that diversified organizations enjoy increase in profits and this meant that the respondents who agreed were in line with the literature aforementioned. 6% were not sure and very uncertain, they thought that diversification might or might not have a bearing on profitability and thus could not give a position and remained neutral. 47% of the population disagreed that profitability increases due to embarking on diversification. The meaning derived from the results and findings is that since diversification is an expansion which is capital intensive, the revenue generated does not match with the costs incurred in the funding let alone those related to the diversification strategy. In their literature, Abdamu, (2013) and Ajay and Madhumathi, (2012) also argued that risks associated with diversification reduces the profits as there are costs accruing which needs settlement.

In this objective, it was like a double swerved edge as there were 47% who agreed and the same disagreed and the conclusion of the impact of diversification could not be easily identified by use of modal class as the results had no mode. However a standard deviation of 1.27 was used to help give conclusion as well as the secondary data reports and trends. The researcher concluded that diversification does not increase the profits as was evidenced by the reduction in profits from the time when the organization embarked on diversification.

4.2.2.4 Association between diversification and leverage when controlling other leverage determining variables

The aim of the above objective was to determine the association between diversification and leverage when other leverage determining variables such as tangibility, form growth among others are controlled for.

Table 4.10 controlling other variables

Description	Frequency	Rate %
Strongly agree	2	**11.8**
Agree	**1**	**5.9**
Uncertain	**11**	**64.7**
Disagree	**3**	**17.6**
Strongly disagree	**0**	**0**

Source raw data 2017

The results in the above table shows that 2 out of 17 (11.8%) strongly agreed while 1 (5.9%) agreed. 11 (64.7%) were uncertain and 3 (17.6%) disagreed.

In this objective, 17.7% (11.8% strongly agreed + 5.9% agreed) agreed that when other factors such as tangibility and profitability are controlled for, diversification still impacts and influences the organization to acquire debt capital. This means that diversification is an investment which requires funding even if the organization is not expecting growth opportunities or does not have high tangibility and this was supported by the available literature of Militao, (2015); Qureshi et al. (2012) and Rezaei and Azad, (2014) who also controlled for other variables and found diversification and debt finance to be positively associated. The respondents' results also indicated that 64.7% who were in support of Khan et al. (2012) and Gill et al. (2012) who conducted their researches and could not ascertain the impact of diversification on debt capital when other determinants are controlled for. This entails that in

the current study, respondents were not in a position to determine the impact of diversification on debt capital. Contrary to those whose were uncertain and those who agreed, 17.6% did not agree that diversification has an impact on debt capital when other factors are controlled for. This means that when other determinants are controlled for, diversification will result in firms borrowing less as the investors are not always keen to lend funds to fund such big projects without having solid collateral.

Basing on the modal frequency of 11/17 (64.7) who were uncertain , the researcher concluded that the impact of diversification on debt capital when other variables are controlled for can either be positive or negative and thus neutral and this was in tandem with the results of Gill et al. (2012) who also were neutral.

4.2.3.0: To analyze the impact of debt finance on market share

The aim of this objective was to determine the impact that debt finance has on the market share of the organization. Knowledge of the impact, will help the organization in the decisions related to product market competition.

4.2.3.1 The association between capital structure and product market competition

Table 4.11 product market competition and debt finance

does product market competition has a bearing on debt capital		Frequency	Percent
Market competition	Agree	14	82.4
	Disagree	3	17.6
	Total	17	100.0

Source primary data 2017

The above table shows the frequencies and percentages of the results from the administered questionnaires. 14 out of the 17(82.4%) agreed that product market competition has a bearing

on debt capital employed by the organization. This means that the level of competition in the industry and market of the product or services encourages the organization to have substantial borrowings. TelOne borrows in order to compete aggressively since it is now in amore a competitive environment following the emergence of other competitors such as ZOL, Econet Wireless among others. This follows the suggestion made by Brander and Lewis, (1986) that debt capital allows firms to compete more aggressively as they will indulge in strategies of gaining competitive advantage. The organization in the current study involves an organization which was once a monopoly and still adapting to having competitors and this has resulted in them acquiring debt capital which is in line with the results from Sumitra and Malabika, (2012) who established that firms facing extensive competition end up having greater portions of borrowings in order to initiate competitive products and services and acquire assets suitable to beat up the competition.

3 out of the 17 (17.6%) disagreed. The argument was that for a company operating in a competitive environment, increasing leverage increases the market value of its competitors as it gives room for expansion and entry of new competitors. This is so because the highly leveraged firm ends up charging higher prices and thereby the ultimate result will be loss in the market share to rivals. Opler and Titmans, (2014) argued that financing projects using debt capital when operating in a competitive industry results in the firms losing market to rivals and the 17.6% who disagreed, can be said to have considered that.

The modal class in this objective was 14/17 (14 agree and 0 strongly agree) and this gives rise to the conclusion that indeed operating in a competitive environment increases the levels of debt capital employed as a way to fund projects and products that are unique and very competitive advantageous.

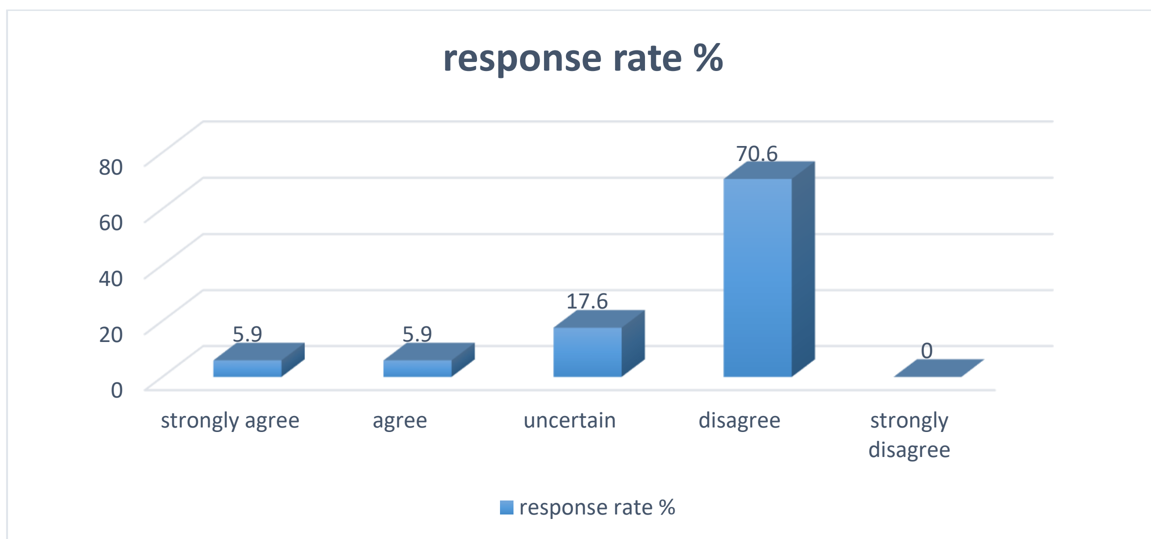
4.2.3.2 Product market competition, financial leverage and financial performance

Table 4.12 product market competition, financial leverage and financial performance.

does employing debt capital to deter competition has an impact on profitability		Frequency
employing debt capital	strongly agree	1
	Agree	1
	Uncertain	3
	Disagree	12
	Total	17

Source Raw data 2017

Fig 4.5 Financial performance and leverage



Source raw data 2017

The above table and figure shows that 1 out of 17 (5.9%) strongly agreed that employing debt capital in a competitive environment impacts positively on financial performance. 1 (5.9%) also agreed while 3 of the 17 (17.6%) were uncertain as to whether there is any impact. While 12/17 (70.6%) disagreed, there were none who strongly agreed.

By addition, 11.8% (1 strongly agree and 1 agree) agreed that when the organization employs debt to improve its competitive advantage, an increase in the financial performance in terms of profitability is marked. In their literature, Mahmoudzadeh and Seyfi, (2017) also argued that a competitive market and financial leverage results in an increase in the financial performance.
17.6% of the study population reviewed that they were not aware of the impact of incorporating debt finance in an extensive product market competition has on the financial performance of the organization. The notion was also supported by the study results from Bischoff and Achim, (2015) who concluded they were uncertain and remained neutral, they were not able to ascertain the actual position as the results showed that it can either increase or mark a decrease in the financial performance.
The modal of 12 (70.6% who disagreed and 0 who strongly disagreed) represents those who were of the view that financial performance of the organization declines in terms of revenues generated and the profits retained when debt capital is utilized in product market competition environment. As was shown in the literature review earlier on, Heidapoor et al. (2015) and Datta et al. (2013) highlighted that the greater the levels of competition, the more the organizations end up acquiring finance at relatively higher finance charges and the corresponding effect will be a decrease in the profits. For TelOne this is said to be true as the organization which used to be a monopoly in the industry now has extensive competition and is resorting to debt capital to boost its projects which is resulting in declining profits and revenues as was shown in the secondary data: financial reports.

The modal of 12 (70.6%) who disagreed meant that debt funding of projects in a competitive market product leads to reduction in profits thereby not boosting the fi9nancial performance of an organization. The results indicating those who disagreed was consistent with the findings of

a study done in Europe from which it was concluded that employing debt funding results in profits reduction Izaadnia et al. (2013).

4.2.4.0: To determine the impact of debt finance on financial risk

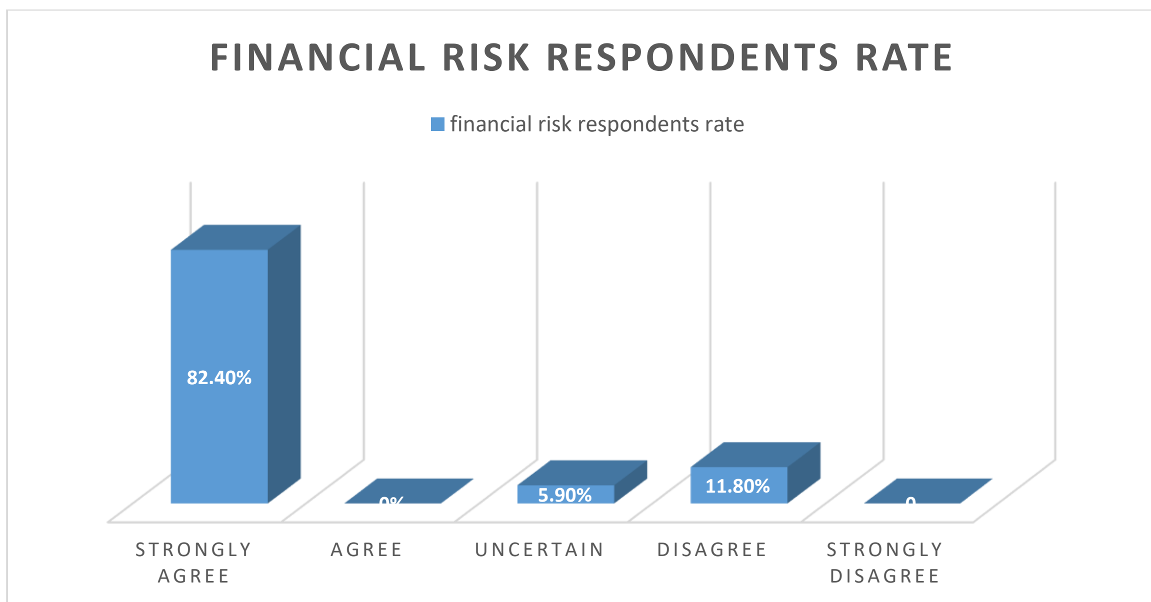
The objective sought to determine the impact of debt finance on financial risk of the organization. The belief is that borrowing increase the financial risk of the borrower, so the results below are to show whether the belief is true in TelOne.

Table 4.13 the impact of debt finance on financial risk

Does debt finance increase financial risk?		Frequency	Percent
debt finance	Agree	14	82.4
	Uncertain	1	5.9
	Disagree	2	11.8
	Total	17	100.0

Source primary data 2017

Fig 4.6 financial risk respondents



Source research data 2017

14 out of the 17(82.4%) agreed that debt capital increases the financial risk of the organization and there were none who strongly agreed. Those were uncertain were represented by 1 (5.9%) while 2 (11.8%) disagreed. None of the respondents strongly disagreed.

By way of aggregation, (14 agree and 0 strongly agree) 82.4% agreed that debt finance results in increased financial risk as was also established by Schwartzkopf, (2012) who found out that debt capital and financial risk were positively correlated. Financial risk increases with continual use of borrowings as the probability of failure to repay is high especially during economic downturns as what happened in Germany after the economic meltdown when firms resorted to debt finance to boost their operations Schwartzkopf, (2012).

5.9% was uncertain to whether the financial risk increases as a result of employing debt capital and this was in tandem with the empirical study by Halov et al. (2012) who found that weak to no association existed between debt capital and financial risk.

Fang, (2016) advocated that the interest related to debt capital cannot be said to be related to financial risk as they are a benefit in that they are tax deductible. The aforementioned results can be related to the 11.8% who disagreed that debt finance increases the financial risk of the organization.

The modal of 14 out 17 (82/4%) meant that indeed debt funding increases the possibilities of TelOne increasing its financial risk and this was supported by the literature in which it was alluded that whatever the amount of debt an organization has, chances are financial risks is increased especially when there is a recession Gurathna, (2016).

4.3 Interview responses analysis

The interview guide had typical questions used in gathering data related to the main objective of determining the impact of debt finance on financial performance in TelOne. Four interviews were scheduled but only three were successfully conducted due to reasons beyond control of the researcher as far as the other interview was concerned.

4.3.1 What are the determinants of capital structure decisions in TelOne?

The interview question sought to bring out the factors that determine the capital structure decisions of the organization.

Respondent 1

"In my view and for the time I have been here at TelOne, capital structure decisions are mainly influenced by the tangible assets that we have all over the country and also when we marked decreases in profits we tend to utilize external finance by way of debt capital".

The first responded cited profitability and tangibility as the determinants of debt capital decisions in TelOne. The respondent explained that the debt capital structure of the organization was influenced mainly by the levels of profitability also the fact that the organization has high tangibility. The views of the respondent were in line with the study of Chidoko et al. (2012) and Choi, (2012) who also found profitability as being positively associated with financial leverage. Wahab et al. also established that tangibility is a determinant of capital structure decisions. The respondent argued that when their profits marks a decrease, the organization resort to debt capital to finance their projects and this was consistent with the results obtained in Korea. The Korean study established that once firms prefer to use internal funds and resort to debt when there are not enough retained earnings Choi, (2012).

Respondent 2

The above respondent was of the view that the decisions of capital structure are influenced by three factors which are tangibility, potential firm growth and firm size. The respondent said, *"this organization is able to borrow funds and be given preference because it has so many and valuable tangible assets which lenders view as collateral, the organization is large and well established since it was once a monopoly and has the ability to grow, the fact that it is well established and can grow bigger than it is today, makes it easier for us to attract lenders especially from abroad".* The respondent argued that lenders consider and are willing to fund

loans to the organization because the organization is highly tangible and also that there are greater possibilities of continual growth considering that the organization is very well established. Wahab and Ramli, (2014) argued that a firm with more tangible assets are given first preference as the assets acts as better collateral. Pahuja and Sahi, (2012) found out that firm growth helps in the decision of capital structure and sited that firms with growth opportunities resort to debt capital as the internally generated funds will not be enough and this was also the suggestion of the respondent 2. The respondent associated capital structure decisions with firm size and explained that it is easier for the organization to have access to debt finance as it is a well-established large organization with assets which are highly valuable and act as collateral to the investors. This entails that the bigger the firm, the less the chances of bankruptcy as was found out by the studies of Sergheiscu and Vaiden, (2014).

Respondent 3

The respondent argued and advocated for tangibility and firm size as the major determinants of capital structure decisions in the organization. The exact words of respondent 3 were as follows: *"I personally think that what makes us borrow is the fact that we are a big organization and cannot use internal funds and we do have an advantage in that we have high tangibility and are big enough to be given first preference apart from the fact that the government who is the owner can easily negotiate debt funding for us"* The respondent said that when an organization is as large as TelOne, it engages in diversification projects and other investment and therefore the internally generated funds are always not sufficient as the project will be of a capital extensive nature. The respondent also said that because an organization is big, it is preferable to give loans as the chances that the will not be able to pay back are very limited considering that they have highly valuable tangible assets. In simple terms the respondent said that firm size and tangibility are the major determinants of capital structure decisions which are interrelated in the organization as usually a firms size is determined by is

tangibility which acts as collateral security. In the studies by Choi, (2014) and Gharaibeh, (2015) it was also established that tangibility and firm interrelatedness influences capital structure decisions.

In conclusion, from the above respondents, it can be established that tangibility is the major determinant as all the respondents were in agreement that debt capital in their organization is influenced by tangibility and this commends the 76.4% from questionnaires responses who agreed to the same notion. The other determinants which dominated are firm size and firm growth as argued for by 2/3 of the interviewees and were also in line with the 70.5% and 76.5% of the questionnaire responses who advocated that aforementioned were determining factors.

4.3.2 How does debt finance affect diversification of products and services?

The question was structured in such a way as to find the effect of both product and geographic diversification on the debt capital of the organization. It also wanted to answer the impact of diversification on profitability of the organization.

Respondent 1

The first respondent said that *she thinks that they are risk averters when it comes to debt funding and diversification.*

The first respondent argued that diversification does not result in the use of debt capital as the organization has risk averters who are not keen to face the risk of having high loans in their structure. The respondent also argued that they prefer to use internally generated funds as both product and geographic diversification are faced with the risk of failure in the initial stages which may result in losses and therefore not be able to pay back the finance charges related to the borrowings. This suggestion was consistent with the results of Militao, (2015) and the 4 of 17 questionnaire responses (23.5%) who augmented that diversification does not increase debt finance in the organization.

In response to the impact of diversification on profitability, the respondent argued that from his experience since the initiation of diversification, there has not been any significant marked increases in profitability levels.

Respondent 2

Unlike respondent 1 who argued that both forms of diversification do not influence debt capital, respondent 2 argued that when engaging in geographic diversification then there is need for more external funding as it requires more capital to reach out to different geographical areas. The respondent further went on to argue that in line with the company policy, external debt is to be acquired for a geographical segmental diversification than to use profits or internal funds from other segments of the organization. As was suggested by Qureshi et al. (2012), highly geographically diversified firm uses more debt funding. The respondent also highlighted that for product diversification, the organization also uses debt finance as it engages in both related and unrelated services diversification for example broadband, voice and college training services. The difference in the diversification of products encourages the use of external funding in form of debt capital as was indicated from the study of Rocca et al. (2013).

The responded pointed out that since the inception of diversification in the organization, there has been an improvement in profitability although could not be attributed as significant considering the amounts generated. The respondent was consistent with the questionnaire response rate of 76% who agreed that diversification encourages use of lengthy period liability funding.

Respondent 3

The respondent argued that the more the organization was engaging in product diversification, the more debt capital it was employing. In Nigeria, Olayiwola and Chechet, (2014) also stressed out that embarking on product diversification results in an increase in the employment of debt

finance. Also 76% of the questionnaire response agreed that product diversification encourages the use of debt finance implying that diversification is a huge investment and project. The respondent also supported the view of the second respondent in terms of geographical diversification. On the impact of diversification on profitability, it was established that diversification improves the profitability as was suggested also from the study of Wairimu, (2015) and Abdamu, (2013).

In summing up, the above argument gave the conclusion that both product and geographic influences the use of debt capital in TelOne as was suggested by 67% of the interviewees. Profitability was also found to be positively associated with diversification consistent to Sheikh and Wang, (2012) results.

4.3.3 What is the impact of debt finance on market share of TelOne?

The question sought to establish the extent to which the need to gain and maintain market share influences the employment and acquisition of debt finance in TelOne and how it subsequently impacts on the financial performance as measured by profitability levels.

Respondent 1

The first respondent argued that from the time that the organization lost its economy of being a monopoly, they resorted to use of debt finance as way to maintain and gain market share in a competitive environment. The words of the respondent were as follows*; "we started to rely on debt funding the moment we started facing competition and lost our power as being a monopoly, we had to diversify and start new projects as the consumer tastes had also changed".* This entails that the organization had no choice but to engage in strategies and projects to improve sustainability. The move to employ debt funding was also commended by the long back authors who suggested that having external debt funding allows firms to engage and compete more aggressively as they will be able to embark on survival strategies Brander and Lewis, (1986). The respondent also pointed out that seizure to be a monopoly in the

telecommunications industry saw the need for diversification programs and hence the acquisition of debt finance and denoted that use of debt finance has helped them gain market share of over 40% in their broadband services and resulted in positive yields of profitability. The yielding of positive profitability was in tandem with the empirical literature of Mahmoudzadeh and Seyfi, (2017) who found out that employing debt finance in a more competitive market results in an increase in financial performance.

Respondent 2

Contrary to the above view by the first respondent, respondent 2 pointed out that employing debt funding in a competitive market leads to loss of market share. *"Ever since we started using debt capital we have lost our market share by over 18% and this is because we charge high prices for our broadband to be able to pay back and cover much of the debt finance costs which I can safely consider as being too much".* The reason for loss of market share is that increase in debt or external borrowing is related to financial costs which maybe relatively high and this forces the organization to up the prices of their products and services thereby consequently giving an opportunity to rivalry firms to increase their market value and they can easily penetrate and charge lower prices. The suggestion by this respondent is in line with the findings from Chevalier, (2015); Chevalier and Scharfstein, (2015) and Beiner et al. (2012) who found out that being financial leveraged in a competitive market opens up an opportunity for expansion and entry of new rivals who can charge relatively lower prices as they have no other burden. The respondent added to and supported the 17.6% who disagreed that there is an association between debt and product market competition. In relation to the impact that product market competition and employment of debt capital, the respondent said that the profitability does not improve because of the high financial costs and loss of market share to rivals. The result could be linked to the scholarly study of Izadania et al. (2013) who augmented that

greater levels of competition reduces the levels of discretionary accruals and results in decrease in revenues and thereby not meeting the finance costs and interests of the borrowings.

Respondent 3

Respondent 3 agreed with the views of respondent 1 by saying that *indeed in a competitive market, to gain market share, the best option is to acquire debt capital especially that the organization is not quoted on the Zimbabwe Stock Exchange and cannot therefore have issued share capital*. As Bischoff and Achin, (2015) found that the financial performance neither increases nor decreases, the above mentioned responded was neutral and very uncertain as to the impact that debt finance and competition have and commended the 17.6% who were also uncertain the questionnaire responses.

4.3.4 What is the impact of debt finance on financial risk?

The above question had the motive to establish the effect that debt finance has on the financial risk and also to find out if it is true that it increases financial risk, then why is it the organization capital structure is highly dominated by debt finance especially long term debt and foreign debt.

Respondent 1

'It is very true that debt funding increases financial risk but in a dynamic sector like ours, it doesn't pay to be a risk averter. We borrow because we have the anticipation that all will go well and our risk department would have assessed the situation and given us the go ahead to borrow'.

Respondent 2

'Debt finance increases financial risk especially when the debt capital funded projects do not go as was planned'.

Respondent 3

'We continue borrowing even though we are aware that the move increases financial risk because we are risk takers. All the projects here are actually a success only because we denied ourselves to be risk averters'.

All the respondents the levels pointed out that they agree that debt funding increases the financial risk of the organization as was established by Gurathna, (2016) and Harckbath et al. (2013) who found that financial leverage was strongly positively associated with financial risk. The respondents when asked why the organization continues to borrow allured that despite the possibility and high levels of financial risk, when in business it pays not to be risk averse. In other words they meant that they are risk takers and they also pointed out that the competition and need to diversify as sustainability strategies forces them to overlook the risk associated with the debt but however, precaution is taken by the risk department to minimize the chances of losses through financial risk. The respondents supported the views of the 82.4% of questionnaires responses who agreed that employment of debt capital increases financial risk.

4.4 Analysis of secondary data and regression analysis

The study used regression analysis to determine the relationship between debt finance and financial performance of TelOne. The model incorporated ROA as the dependent variable (measure of financial performance) and the independent variables included short term debt finance, long term debt finance, and tangibility among others. The data used was from secondary and questionnaires were used for clarity. The data was analyzed and regressed using Excel package. The results are shown below

LINEAR REGRESSION MODEL ANALYSIS RESULTS

Regression Statistics	
Multiple R	0.999869919
R Square	0.679739854
Adjusted R Square	0.89869927
Standard Error	0.00243276
Observations	6

Source research 2017

ANOVA table

	Df	*SS*	*MS*	*F*	*Significance F*
Regression	4	0.022744	0.005686	960.7486	0.024191
Residual	1	5.92	5.9287		
Total	5	0.02275			

Source Excel

	Coefficients	*Standard Error*	*t Stat*	*P-value*
constant	0.347905144	0.002544	136.7632	0.004655
Ltd	-0.0083348	0.000569	-14.6541	0.043376
Std	-0.040990018	0.000933	-43.9459	0.014484

Tan	0.015071348	0.00049	30.74967	0.020696
Div	0.024971645	0.000557	44.86343	0.014188

The above results shows that debt finance is negatively and statistically related to financial performance as measured by ROA. The p- value of less than 0.05 (5%) was considered to be significant and therefore the regression yielded p-values of 0.043376 and 0.014484 which were proxy by long term debt and short term debt respectively. Having the result which shows that there is a significant relationship implies that we cannot reject the null hypothesis: *Ho debt finance is significantly related to financial performance.*

The study had a coefficient of determination (R square) of 0.679739854 which means that 68% of the variability or variations in financial performance are explained by the joint contribution of the independent variables used in the model (short term debt, long term debt, diversification and tangibility).

Furthermore, the results in the above tables shows that all the factors were statically significant at 5% level of significance as shown by the p-values which have been highlighted in the table.

Long term debt

Long term debt has a significant and negative relationship with the dependent variable ROA which was the proxy for financial performance. The regression result implying a negative relationship was in sync with the hypothesis formulated in literature review: *H3 long term debt is negatively associated with ROA* which is supported by beta =-0.0083348. also the effect of the long term debt finance was shown by the t-test value of *-14.6541* which implies that the effect of long term debt surpasses that of the error by over 14 times. The results showing that there existed a negative significant relationship concurred with the empirical results from the study by Abdul, (2012) and Muritala, (2012) who also established a negative and statistically significant relationship. The questionnaires respondents of 10/17 (59%) also were of the view

that long term debt does not have an impact or bearing on ROA. The researcher thus concluded that long term debt was negatively and significantly related to ROA.

Short term debt

The regression results shows that short term debt had a beta of -0.040990018 and a p-value of 0.014484 and this meant that it was negatively but significantly (as the p-value is less than 0.05 which is considered significant) correlated to ROA. Thus, the researcher accepts that short term debt is negatively related to ROA or profitability as opposed to *H4; short term debt and profitability are positively related* which was shown in the literature review. Shubita and Alsawalah, (2012); Osuji and Odita, (2014) and Ferati and Ejupi, (2012) also found short term debt and profitability or ROA to be negatively related. The argument and reason for the negative relationship is that in most cases when firms borrow, they would want to maintain a liquid position and consequently that results in a decrease in financial performance as measured by profitability and ROA.

Tangibility

The composition of the asset structure was shown to have a positive relationship with the accounting measure of financial performance which used ROA as its proxy. The standardised coefficient was 0.015071348 and a p-value of 0.020696 which was significant at 5% significance level. The result clearly showed that tangibility was enabling the organisation to invest and use the assets efficiently. Thus H1 there is a significant relationship between tangibility and debt finance was true and accepted in the study. The result implies that tangibility enables borrowings as it acts as collateral and encourages increase in ROA. The study finding and result was in sync with the responses from the questionnaires from which 76% agreed that tangibility was positively related to debt finance and ROA. The literature available from Zabri, (2012)

and Chechet et al. (2013) also recorded a positive relation though they it was not statistically significant.

Diversification

The result indicates that for every birr of diversification, there was an improvement of 24% in financial performance (beta =0.0246748). Consequently, the effect of diversification is indicated by the t-test value of 44.86343 which entails that the positive effect that diversification has on ROA surpasses that of the error by more than 44 times. The researcher had anticipated a resultant effect of a positive relationship and came up with H2 diversification is positively related with profitability and together with study respondents (76% and all interviewees) who agree the same notion, it was proved that indeed diversification improves the financial performance of the organisation. This means that embarking on diversification of products and services results in an increase in profitability levels. The literature results from Wairimu, (2015) and Sheikh and Wang, (2012) also agreed a positive relationship by pointing out that highly diversified firms were enjoying increased profits. Following the regression results being supported by questionnaire and interview respondents, it was then concluded that engaging in diversification, improves and results in positive increases in financial performance.

In conclusion, the regression results can be summed up as follows;

ROA= 0.347905144 constant - 0.0083348 LTD - 0.040990018 STD + 0.015071348 TAN + 0.024971645 DIV + 136.7632 error term

The above implies that long term debt and short term debt negatively and significantly affect ROA whereas tangibility and diversification positively and significantly influences the accounting measure of financial performance ROA.

4.5 Chapter summary

The chapter focused on presenting and analysing the adequate data which was gathered from questionnaires and interviews as well as secondary data extracted from the organisations financial reports and brochures. The analysis helped the researcher to come up with meaningful conclusions which will enable in coming up with recommendations viable in strategic decision making of the organisation.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

The preceding chapter focused on data presentation and analysis from the primary data gathered through the questionnaires and interviews as well as secondary data extracted from the company's financial reports, brochures and journals. The current chapter will give a summary of the research, give conclusions as well as outline the recommendations and areas for further research.

5.1 Chapter summaries

The aim of the study was to determine the impact that debt finance has on the financial performance of TelOne Private Limited.

Chapter One

The chapter mainly furnished the highlights of the overall study objectives. In this chapter, the statement of the problem and background of study established and found that the organisation was experiencing and realising a deterioration in the financial performance in terms of profitability even after they had employed debt funding to boost major projects and it was against that background that the question was brought up on the impact of debt finance on the financial performance. The chapter also went further as to give an outline of the major objectives and hypotheses which were used in answering the question.

Chapter 2

Having established the objectives in chapter 1, chapter 2 gave a critical analysis of the literature review. In the literature, prominent authors were Cekrezi, (2013), Sangeetha and Sivarathan, (2013) who were mainly focusing on determinants of capital structure and their literature acquainted the researcher with necessary knowledge for easy identification of research gaps. The other protuberant authors included Ahmad et al. (2012); Saeed et al. (2013) and Javed et al. (2015) who provided literature related to capital structure decisions and financial performance and provided that there exist a positive relationship between debt capital and ROA.

Chapter 3

Descriptive research design which comprised of a mixed approach of qualitative and quantitative was incorporated in the study. Questionnaires and interviews were used to collect primary data while secondary was extracted from the financial reports and brochures of the organisation. Quantitative data was used in conjunction with SPSS 20 and Stata 11 and this was previously alluded for as the best practice for attaining and establishing relationship between variables Daud, (2012). A population of 30 individuals was established and by use of stratified sampling, a sample of 20 accessible was used in the research.

Chapter 4

Data collected through questionnaires was presented in tables and different charts and was also analysed using SPSS 20 and Stata 11 statistical packages. The relationship between debt finance and ROA was established by way of multiple linear regression using the panel data approach.

5.2 Major Research Findings

- ***To explore the factors which determines capital structure*.**

  From the study results, it was established that firm size, tangibility and firm growth stand as the major determinants of capital structure. This was evidenced by the modal class of questionnaire responses which ranged between 70-77% implying that the higher the organisation's possibility of growth and the greater the value of assets as well as the bigger the organisation, the greater the level of debt finance in the financial mix. This is because tangibility acts as better collateral and also bigger firms are less prone to bankruptcy.

- ***To determine the impact of debt finance on diversification.***

  Debt finance capacity and employment of debt capital increases with the increase in diversification. Diversification is a capital intensive initiative which requires more capital hence the use of debt capital which allows firms to engage in projects which cannot be adequately funded by internally generated funds.

- ***To ascertain the impact of debt finance on market share.***

  In a competitive market, more debt is used to aggressively competitively be able to maintain and gain increased market share. Debt finance allows diversification and implementation of competitive projects in a very competitive and dynamic sector.

- ***To determine the impact of debt finance on financial risk.***

  As evidenced by the highest frequency 14/17 (82.4%), the continual use of debt finance increases the financial risk of the organisation. The organisation continues to borrow because they are not risk averse but are aware that during economic downturns, they could suffer.

- ***To determine the relationship between debt finance and financial performance.***

  Debt capital using short term and long term debt as proxies was negatively and significantly related to financial performance as measured by ROA meaning that increase in leverage negatively affects financial performance. It was statistically significant at 5% level of significance. The coefficient of determination was 68% indicating that the variations in ROA were determined and explained by debt capital as well as tangibility and diversification. Tangibility and diversification were positively and significantly related to ROA and their effect exceeded that of error component by more than ten times.

5.3 Recommendations

Based on the research findings, the researcher was compelled to confer the following recommendations and suggestions.

- The organisation should try not to use excessive amounts of debt capital in their financial mix and try and finance their projects with retained earnings while having use of debt funding as the last option.
- The company should consider fully embarking on diversification as it can be funded with internal funds and still yield positive results financially.
- The organisation should consider merging with its competitors to monopolise and be able to maintain an optimal level of debt capital and reduce financial risks.
- The financial analysts in the organisation should also help in assessing the interest charges especially before acquiring debt finance.

5.4 Conclusions

The motive of the research was to establish and determine the impact that debt finance has on the financial performance following that the organisation was not realising favourable financial

performance as measured by profits even after having acquired debt finance. The debt finance was acquired to boost projects and improve financial performance but that was not the case from the period 2014-2016. The researcher has thus concluded that debt finance does not improve financial performance as was established in the study the negative and statistically significant relationship and a coefficient of determination of 68%.

5.5 Suggestions for further study

Further studies can be conducted on the same area but using longer time series instead of the three years employed by the current study.

5.6 Summary

The chapter provided an outline of the overall research by highlighting the summary of other chapters, outlining the major findings as well as the conclusions and recommendations. It also furnished the areas for further study.

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Appendix A

Linear regression model

Regression Statistics	
Multiple R	0.769869919
R Square	0.689739854
Adjusted R Square	0.99869927
Standard Error	0.00243276
Observations	6

ANOVA

	df	SS	MS	F	Significance F
Regression	4	0.022744	0.005686	960.7486	0.024191
Residual	1	5.92E-06	5.92E-06		
Total	5	0.02275			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.347905144	0.002544	136.7632	0.004655	0.315582	0.380228	0.315582	0.380228
X Variable 1	-0.0083348	0.000569	-14.6541	0.043376	-0.01556	-0.00111	-0.01556	-0.00111
X Variable 2	-0.040990018	0.000933	-43.9459	0.014484	-0.05284	-0.02914	-0.05284	-0.02914

X Variable 3	0.015071348	0.00049	30.74967	0.020696	0.008844	0.021299	0.008844	0.021299
X Variable 4	0.024971645	0.000557	44.86343	0.014188	0.017899	0.032044	0.017899	0.032044

Appendix B Cover letter

Faculty of Commerce

Department of Accounting

P. Bag 9055

Gweru

21 August 2017

The Finance Director

TelOne Pvt Ltd

107 Kwame Nkrumah Avenue

Harare

Dear Madam

RE: REQUEST FOR PERMISION TO CARRY OUT AN ACADEMIC RESEARCH

Permission is being sought to carry out an academic research at your organisation. The requester (Liziwe Muzeya R141455F) is a student in her final year at Midlands State University and the research is being conducted in partial fulfilment of the Bachelor of Commerce Accounting Honours Degree. The academic research being conducted is titled "The Impact of

debt finance on financial performance of telecommunications company: Case of TelOne Pvt Ltd".

The information obtained will be used for academic purposes and ethical considerations in terms of confidentiality will be highly observed. Your favourable response will be greatly appreciated.

Thank you in advance.

Yours faithfully

Liziwe Muzeya (R141455F)

Appendix C

Questionnaire

The researcher (LIZIWE MUZEYA R141455F) is a final year student at Midlands State University who is currently undertaking a research on '***The Impact of debt finance on financial performance: Case of TelOne Pvt Ltd'.*** Request for your time in answering this questionnaire which is aimed at equipping the researcher with your views and knowledge for the topic under study is being sought. Your contribution is much appreciated and is of utmost help. You are requested to answer the questionnaire by ticking where appropriate in the space provided. If you have any issues you want to highlight, please feel free to write them down on additional papers provided.

NB For confidentiality, no personal information is to be provided!!!

1 To determine the factors that determines the capital structure of the company

	Strongly agree	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
Profitability					
Firm size					
Tangibility					
Firm growth					
Taxation					
Liquidity					
Country specific factors like banks liquidity crunch and stiff regulatory					

2 To determine the impact of diversification on financial leverage

	Strongly positive	Positive	Neutral	Negative	Strongly negative
Product diversification and financial leverage					
Geographic diversification and capital structure					
Product diversification and financial performance as measured by profitability					
Diversification and financial leverage when controlling factors which determine debt capital					

3 To determine the impact of debt finance on financial performance

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Long term debt influences return on assets					
Short term debt finance has a bearing on profitability					

4 To analyse the impact of debt finance on market share

	Strongly agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
Product market competition has a bearing on debt capital					
Employing debt capital to deter competition has an impact on profitability					

5 To determine the impact of debt finance on financial risk

	Strongly agree	agree	uncertain	Disagree	Strongly disagree
Does debt finance increase financial risk?					

Thank you for your cooperation, contribution and time.

APPENDIX D

INTERVIEW GUIDELINE

1) What are the determinants of capital structure decisions in TelOne?

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2) How does debt finance affect diversification of products and services?

Is product or geographic diversification affected by debt capital or does debt influence both diversifications in any way?

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3) What is the relationship between debt finance and financial performance of TelOne as measured by ROA and profitability?

Does long term debt influence ROA?

…………………………………………………………………………………………………..

Does short term debt has a bearing on profitability of an organisation?

…………………………………………………………………………………………………..

4) What is the impact of debt finance on market share of TelOne?

How is debt capital influenced by the product market competition?

…………………………………………………………………………………………………

How product market competition and debt capital employed is impacting on profitability levels of the organisation?

……………………………………………………………………………………………………..

What is the impact of debt finance on financial risk of TelOne?

Does debt capital increase financial risk of TelOne ?

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