The link between debt finance and profitability in the emerging market: A case study of a furniture retail company

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Abstract

The objective of this research was to establish the impact of debt finance on the profitability of a firm using A furniture retail company (pseudo name “A”) as a case study. The mixed methods approach was employed quantitative data from financial statements and qualitative data from interviews. The target population was 25, hence the researchers used a population census, 24 participants assisted in the research. The statistical method used for analysing secondary data was STATA 11. The regression model and variables incorporated were debt ratio, which was the independent variable, and the return on asset ratio, which was the dependent variable, and the measure of profitability in this particular research. Main findings from the research indicated that debt financing was significantly and statistically negatively affecting the return on assets of the company. The regression yielded a p-value of 0.018 and a coefficient of 0.9992 thus confirming a 99.92% that the variability in profitability is well explained by the independent variable used in this research which is debt finance. The study recommends companies to carry out an in-depth cost-benefit analysis of debt financing to ensure optimum profitability especially for small and private limited companies in a volatile economy (Zimbabwe).