

UNIVERSITY OF GHANA
COLLEGE OF HUMANITIES

THE IMPACT OF DEBT FINANCING ON THE PERFORMANCE OF STATE-OWNED
ENTERPRISES IN GHANA

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THIS LONG ESSAY IS SUBMITTED TO THE UNIVERSITY OF GHANA,
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DECLARATION

I do hereby declare that this work is the result of my own research undertaken under supervision and has not been presented by anyone for any academic award in this or any other university. All references used in the work have been fully acknowledged.

I bear sole responsibility for any shortcomings.

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CERTIFICATION

I hereby certify that this long essay was supervised in accordance with procedures laid down by the University of Ghana.

.....

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.....

DATE

DEDICATION

I dedicate this project to my mum and dad and my brother, Kwadwo Owusu Ansah for their encouragement and support throughout the study period and in this project.

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LIST OF ACRONYMS

DEBR	-	Debt Ratio
EPS	-	Earnings Per Share
FAT	-	Fixed Asset Turnover
GBEs	-	Government Business Enterprises
GC	-	Government Corporations
GCEs	-	Government Controlled Enterprises
GLCs	-	Government-Linked Companies
KPIs	-	Key Performance Indicators
MM	-	Modigliani & Miller
NPM	-	Net Profit Margin
PEs	-	Public Enterprises
PBEs	-	Public Business Enterprises
POs	-	Parastatal Organisations
PSUs	-	Public Sector Units
PwC	-	PricewaterhouseCoopers
ROA	-	Return on Asset
ROE	-	Return on Equity
SOEs	-	State-Owned Enterprises
TA	-	Total Assets
TAT	-	Total Asset Turnover
TL	-	Total Liabilities
TOT	-	Trade-Off Theory
VIF	-	Variance Inflation Factors

ABSTRACT

The purpose of this paper is to demonstrate and recognize the link between debt financing and performance and choosing appropriate measures to evaluate and analyze the financial status of State-Owned Enterprises. The major aim is to determine the level of debt financing among State-Owned Enterprises in Ghana. The study investigated the relationship between debt financing and performance of 22 State-Owned Enterprises (SOEs) over a four-year period (2014 – 2017) using regression model and Pairwise correlation matrix of the various variables utilized in the study.

Many measures of firm performance such as a firm's profitability was 0.19% for the sampled SOEs. This shows that profitability of SOEs has been declining. In addition, efficiency of state-owned enterprises has been declining over the study period. This is evidenced by the decline in the total asset turnover ratio over the period.

Key words: Debt Financing, Financial Performance, State-Owned Enterprises, Pairwise Correlation Matrix

CHAPTER ONE

INTRODUCTION

1.1 Research Background

Financial Management is very crucial to the survival and growth of every business. To manage the finances of businesses, managers are to undertake three important decisions. These decisions are; which long term assets should the business engage in (capital budgeting), how are these long-term assets going to be financed (capital structure) and finally how is the business going to finance its daily activities (working capital management). Although all three decisions are very important, one which gives managers of firm headache and often result in conflict between managers and owners is the capital structure decision. A poor capital structure decision will also affect capital budgeting of the firm. It is therefore important that good capital structure decisions are taken to help in the sustenance and growth of businesses (Adesina, Nwidobie and Adesina, 2015).

The financing of a company's assets is referred to as capital structure. This remains as the proportionate connection between the financing of debt and equity of an entity. Equity financing refers to the raising of funds through sale of shares or common stocks. Equity investors are owners of the company. Debt financing on the other hand is the raising of capital by selling debt instruments. In Debt financing, the providers of funds anticipate receiving the amount provided plus interest at a maturity date. These providers do not become owners of the company. Debt financing comprises of short-term debt and long-term debt. The duration of a short-term debt is one year or less and in the balance sheet of any organization, it is noted as a current liability. In contrast, the duration of a debt in a long period is more than one year and bonds is an example of such debt (Scherr and Hulburt, 2001).

Modigliani and Miller (1958) are of the view that debt has no effect on the value of the firms, hence the theory of corporate finance has since developed several hypotheses about the determinants of financing decisions. This difference in the connection between the debt financing and performance gives us a curiosity to check the relationship of debt financing and the firm's performance of State institutions in Ghana. Even with the made known inadequacies and unfortunate performance of SOEs (Boko and YuanJian, 2011), convincing indication reveals that state institutions are still important. The significance and admiration of the state institutions are more relevant in countries which are still developing, especially Sub-Saharan Africa where there are state institutions operating in every sector of the economy. (Kikeri and Kolo, 2006). It is because of the central role state institutions paly in these countries that makes it important to comprehend the various factors that necessarily influence their performance, but it continues to be a less focused area for research in organizational science.

1.2 Problem Statement

Finance Manager across the world are faced with the challenge of how to optimize financing decision options and improve on firm performance as they are expected to maximize shareholder wealth and help improve the economies of countries which the businesses, they manage are situated in.

While some theory suggest that debt financing is crucial in promoting firm performance as a result of the incentives it provides like tax deductibility advantage, the optimal capital structure decision always has been a debate for both practitioners and academia.

There has been an increase in attention, debate and studies by academia and practitioners on the relationship that exist between debt financing and firm performance. Both developed and developing countries give contradictory findings between these two variables. Some findings

establish a positive relationship and other findings by also establish a negative relationship between these two variables. These conclusions may be as a result of differences in methodological approaches in addition to target populations.

State Owned Enterprises play crucial role in economies of countries. They provide essential services to the citizenry. They also engage in ventures which are capital intensive that private investors would not have funds to engage in. Equity finance of SOEs are provided by the state and as a result very little attention has been given to the financing decisions of SOEs. This has resulted in literature gap in capital structure of SOEs especially with regards to debt financing.

This study therefore pursues to address the gap existing in methodology and literature by looking at the effect of debt financing and performance of SOEs in Ghana.

1.3 Research Objectives

The research objective seeks to examine the relationship between debt financing and the financial performance of State-Owned Enterprises in Ghana. The objectives specified are:

- i. To find out the level of debt financing in State-Owned Enterprises in Ghana.
- ii. To find out how debt financing affects profitability of State-Owned Enterprises in Ghana.
- iii. To find out how debt financing affects the efficiency of State-Owned Enterprises in Ghana.

1.4 Research Questions

- i. What is the level of debt financing in State Owned Enterprises in Ghana?
- ii. What is the impact of debt financing on profitability of State-Owned Enterprises in Ghana?
- iii. What is the effect of debt financing on the efficiency of State-Owned Enterprises in Ghana?

1.5 Significance of the Study

Debt financing is important in the performance of businesses and as a result a study in Debt financing of SOEs would be of much significance. The findings of the study will be beneficial in both academia and industry. It would help inform decisions of governments, investors, management and other researchers.

Government remain the highest shareholder or equity holder of SOEs. The findings from this study would help government appreciate how debt financing affect the performance and as a result engage in financing decisions that would promote the performance of SOEs.

The findings from the study would again be valuable to stakeholders who would want to invest in SOEs as they would have a broader knowledge of how financing decisions affects SOEs in Ghana. The findings would also help them decide as to whether it would be worthwhile investing in SOEs. Management of SOEs would also appreciate the findings from this study as it would help them appreciate how financing decisions affects performance. This will help them make sound financing decisions which would promote the performance of the SOEs which they manage.

Lastly, the study will be beneficial to future researches on exploring more in financing decisions of state institutions in Ghana as this research will contribute towards existing literature.

1.6 Scope of Study

The study seeks to explore the relationship between the financing of debt and financial performance of SOEs in Ghana. This study is therefore limited to the twenty-two (22) SOEs in Ghana. The annual audited reports from 2014-2017 of these corporations would be used for the study. Debt financing variable would make use of the portion of over-all assets of the company, which is financed by debt, thus Total liability/Total Assets. The financial performance variables would be profitability, efficiency, liquidity, gearing and investor ratios. Profitability would be

measured by Return on Asset and Profit after taxation (Net Profit Margin). Efficiency would be measured by Debtor Days and Asset turnover.

1.7 Limitation of the Study

This study has some limitations just like every research. The study is limited to SOEs with annual reports from the year 2014 to 2017. Analyses of the study will be based on information available in the annual reports of the SOE's which another limitation is. However, these limitations would not invalidate the findings of this study as they would be carefully managed to ensure that the set results are achieved.

1.8 Chapter Outline

Chapter One is about the background of the research, the problem of the research, the research purpose, the objectives and the questions outlined to help in the study, the implication of the study and how the study is limited. Chapter two sets the theoretical grounds for the long essay and gives an overview of concepts and terms. It is subdivided into sections relating to theories on debt financing and financial performance. It analyses main empirical findings of related studies. The third chapter gives a justification of the rationale for adopting a methodology approach, the research technique, the sample and gives a summary of the SOEs. The fourth chapter presents the results and findings in tables and graphs as well as discussing the results and findings as it compares it to other related studies. Chapter five concludes the thesis by summarizing the findings of the research and providing recommendations for future research.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Chapter two looks at definition of key ideas and reviews scholarly theoretical and empirical foundations revolving around firm financial performance, capital structure and the debt financing needs for businesses. The theoretical review presents the theoretical studies relevant to the study whereas the empirical review shows the recent research development documented relating to the study.

2.1 Definition of Key Concepts

2.1.1 Capital Structure

Capital structure is the source of assets financing by corporations through the combination of equity, debt or preferred stock (Culata&Gunarsih, 2012) and it is measured as the ratio of debt to capital (Abor, 2005). There are three most popular theories used to explain capital structure. The theories are the trade-off theory, the pecking-order theory and the agency cost theory (Ramalho and Silva, 2009). According to Abor (2005), the debt to capital ratio has a negative effect on profitability in companies listed in Ghana. From the finding, the level of profitability can reduce as a result of debt, so using capital own priority or sale of shares in the stock market is the preferred choice of funding. If a firm has a higher portion of their total assets comprising tangible assets, there is a higher capacity for raising debt since these assets keep their value in the event of liquidation. (Myers 1977). Managers may always want to continue the firm's current operations, and to increase default probability, debt can be considered a mechanism, thus giving debtholders the option to force liquidation. (Ramalho and Silva, 2009).

2.1.2 Debt Financing

The most common sources of finance pursued by companies is debt financing (Harelimana, 2017). According to Cheong (2015), debt financing is when business entities obtain loans from financial establishments, banks and other companies in order to support or sustain business activities. Debt financing can be in many forms (Tirole, 2006) and that the borrower must repay the debt according to the terms and conditions which include interest and loan origination fees (Herehimana, 2017) before the debt's matures. (Cheong, 2015).

Adams (2014), argued that a firm financing decision will depend on the comparative ease in obtaining funds. This is affected by the character of the company's assets, the seasonal and cyclical

fluctuations in its volume of business, its rapidity of growth, its demonstrated or anticipated stability of profits and continuity of operations. The author clarified that these factors also determine firm's financial policy which can influence management choice of financing decision. Warner (1977), argued that the profitability of bankruptcy for larger firms is relatively smaller because they are more diversified, and this increase their credit rating. Also, it is easier for larger firms to raise debt when there are less discrepancies in information. (Myers, 1984).

2.1.3 Equity Financing

Equity financing is the process where shares are issued to investors to raise funds to finance the business operations of the firm or business entity. Most companies at the early stages of their development tend to resort to this form of financing. Equity financing seeks to inject capital into a firm by giving off a stake of the business to investors in exchange of their financial support. Hence investors as well as business owners share in the profit realized from the venture according to the respective shares owned (Abor, 2007).

2.1.4 Firm Financial Performance

A business entity is financially independent if its operations are effective and efficient, thereby realizing enough revenue through observing and taking advantage of environmental opportunities and threats (Turyahebya, 2013). To ensure the proper application and prediction of the capacity of firms, the use of financial reports become a necessity to analyze the efficiency of firms against the internal and external finances. (Levasseur, 2002).

Omollo et al (2018) also explained financial performance as a measure in the mathematical sense that seeks to explore how a firm utilizes its available resources to make profit. The financial statement presented by companies each year portrays clear information that quantifies the financial condition of firms and their financial strength in the financial performance category of either

strong, medium or weak (Assagaf and Ali, 2017). Firms which are very efficient and profitable can greatly improve profit levels by capitalizing on debt tax shields (Fama and French 2002). They are also relatively more likely to repay their debts and interest.

2.2 Determinants of Financial Performance

2.2.1 Debt Financing

Debt financing may have its merit and demerit depending on the performance and the strategic investments of the company. The merits of debt financing may include debt tax shields of interest charge and how free cash flows is reduced. The costs of debt financing will entail the agency conflicts between the stockholders, the debt holders, and the bankruptcy costs (Lambe, 2014). Firms pay interest amounts to the creditors of the funds; which is an exemption from the corporate income tax, whereas the dividends paid to the shareholders are deducted from the earnings after corporate income tax (Kajirwa, 2015).

2.2.2 Administrative Efficiency

Marudas (2004) defined administrative efficiency as the ratio of program expenses (expenses for administrative purposes) to total expenses. It may be attained under the situations of maximizing the outcome of a doing in relation to the resources consumed, and it is measured by comparing the impacts achieved to their efforts. When measuring a firm's effectiveness, one requires estimation of costs, resources and efforts used which are compared to the estimated outcomes. Thus, the efficiency of a corporation is given by the input-output ratios (Mihaiu et al., 2010). According to Mihaiu et al., (2010), administrative efficiency implies the optimization of resources, the ways, and instruments accessible with the aim of reaching the desired outcome. It also the capability of a firm to produce or attain the preferred end results with the minimum expenditure of time, energy, money, material and personnel among others.

2.2.3 Management Efficiency

Management efficiency is when a firm can restrain the undesirable traits and maximize resource capabilities with an aim of delivering products and services of quality to their customers (Ikapel and Kajirwa, 2017). Management act as a safeguard of operating the institution in a manner that is decent and smooth and it is known as skillful management, when it regulates the costs and increases the overall productivity, eventually attaining higher returns (Ahsan, 2016).

Comparatively, more competent organizations will have the tendency of maintaining more levels of stability in terms of operating performance and outputs in relation to other organizations. The presence of sound management is among the vital factors laid behind most companies' improved performance. The determinants of efficient management, though they are mainly suitable to individual firms, it cannot be simply aggregated across the segment. The efficiency of management is a key factor of corporate financial management; this is because it directly influences the firm's performance (Ikapel and Kajirwa, 2017).

2.2.4 Revenue Growth

Revenue growth refers to increase or decrease in a company's revenues which illustrates the expansion in the company's income over a given time frame. Delmar et al (2013) as cited by Akinyi (2012), indicated that if there is one measure of firm performance that could be use then it must be income expansion. The author is of the view that growth over a given time in the monetary gains of a company is a good indicator of performance as it signifies that a company is constantly making improvements.

According to Gabrijelcic et al (2016), the objective of a company is to maximize their revenues to ensure continuous improvement in sales volume even at times of low profits, in both the short and

long term. Revenue and income increase are anticipated to influence the market value and the rate of return measures and in both the actual and simulated industries (Gabrijelcic et al, 2016).

2.3 Financial Performance Indicators

2.3.1 Profitability Ratios

According to Malik (2011), the main objective of every firm is to increase shareholders value, and this makes profitability an important determinant of performance. Any business cannot survive if it is not profitable. (Sivathaasan et al, 2013). Hermanson (1989) as cited by Sivathaasan et al, (2013), defined profitability as the business entity's ability to generate enough revenue, and it is a loss to the organization if it is unable to raise revenue for its activities. Further explanations indicated that if the revenue generated is more than the start-up cost, the firm is said to be profitable. But it indicates a poor performance if it is otherwise.

2.3.2 Efficiency Ratios

Efficiency performance measure looks at how well a company or business is managing its resources. It can also be referred as activity ratio or asset management ratio. The concept of efficiency looks the ability of a company to utilize its assets and manages its liabilities. The measure of efficiency ratio includes Asset turnover, Creditors Days, Debtors Days among others. These ratios are essential in measuring the efficiency of a company.

2.4 Theoretical framework

Theoretical literature provides a framework upon which the theories relevant to the study were based on. The theories examined subsequently are considering the impact of debts on the performance of state institutions.

2.4.1 Agency Theory

One of the most important theories in corporate governance is Agency theory. According to Jensen and Meckling (1976), agency theory is a contractual agreement between principals(owners) and agents(managers) to operate to benefit the principals. The theory suggests that the agent represents the shareholders in the business transaction and for that matter, must act to benefit the owners without regard for self-interest (Assagaf and Ali, 2017).

The theory is widely known for its ease in breaking a complex organization into participants of managers and shareholders and implies the self-interest nature of managers and employees in organizations. Directors, who are hired by shareholders, in turn, envy the accountability role of the business administration in the hands of managers (Clarke, 2004). To strengthen the ownership-management relationship, the principal (shareholders) would incur agency costs which are unavoidable by creating a monitoring board to play the oversight role in ensuring the agent (management) performs to the shareholders' interests of value maximization (Jensen and Meckling, 1976). Agency cost is evident when managers decide to use the company's resources for their personal gain which may be different from the core value of the firm. Jensen and Meckling (1976) formalized a model describing the concept of the agency problem. It is believed that there are discrepancies in information between the manager and the shareholders, with the manager having the upper hand of insider information (Abosedo, 2012).

In support of the theory, Basel Committee (2006) advocates the independence and strategic direction of non-executive directors' help in shaping management by providing insights with their expertise. Consequently, there would be a reduction in agency costs and high corporate productivity since managers would have less opportunity to seek their selfish interests at the expense of shareholders (Nicholson and Kiel, 2007). The model also postulates the tendency that

monitoring activities would be reduced if managers dominate the board. This normally exists when outside members are small and not independent, thereby increasing agency costs and negatively affecting productivity (Bonazzi and Islam, 2007). Al Mamun et al, (2013) also argued that the agency problem may arise when the manager makes decisions which contradict that of their shareholders.

According to Assagaf and Ali (2017), improving the performance of a company requires management or agents to outline decision-making policies that are in accordance with the wishes of the principal.

2.4.2 The Pecking Order Theory

The pecking order theory focuses on the behavioral consideration on the range of the economic – behavioral thesis of financing organizational activities in effort to meet the behavioral aspect of agency theory. However, this theory was not aimed at capital structure construction but how managers identify good sources and use of funds in the finance of their operations (Abosede, 2012). The theory propounds that the information asymmetry that exists between the various stakeholders (owners, managers, investors) may pose a financial constraint. Hence, the need for firms to employ an effective means of selecting a source of finance and their use thereof. Business entities would usually consider retained profit before consideration is given to external sources of finance. They would usually resort to debt-financing as the second measure before ultimately resorting to equity finance where they are faced with giving up some ownership of their firms. (Serrasqueiro and Caetano, 2015). The risk premium on equity is larger than that on debt. This means a higher return on equity finance than on debt finance (Adair and Adaskou, 2015). The theory further explains that internal financing is considered first by firms whereas, in the absence of insufficient funds to financing their business activities.

However, the more profitable a firm is, the greater is its capacity to accumulate retained profits, and so there is less needed to turn to external finance (Serrasqueiro and Caetano, 2015). Firms who have high growth prospects must undertake major investment projects, that gives them (companies) greater opportunities for finance. Thus, for a firm, retained earnings would be used as a source of financing. But in the long run where retained earnings are not enough debt should be issued to finance the needs of the firm.

2.4.3 The Trade-off theory (TOT)

This theory is a development of the Modigliani and Miller (1958) theorem which assumes that there are no taxes. They assert that the real value of a firm will not be affected under theoretical conditions. It further reveals that how a firm is financed in a perfect market has no correlation to its value. A development of MM theorem is the trade-off-theory. The TOT is considered the prerequisite that needs to be established ahead of the development of many other theories which have narrowed on the mode by which businesses choose their capital structure (Cekrezi, 2013).

Modigliani and Miller's (1958) theory provides a firm with a general overview on how profitability can be manipulated through taxation. It also presents with effective means of arriving at an optimum level of debt. According to Cekrezi (2013), debt level increases the bankruptcy due to debt holder seeking a higher rate of interest as against the shareholder who also seeks a higher profit on investment. This is due to increase in debt to equity ratios. "Companies with safe, tangible assets and plenty of taxable income to shield ought to have high target ratios. Unprofitable companies with risky, intangible assets ought to rely primarily on equity financing. If there were no costs of adjusting the capital structure, then each firm should always be at its target debt ratio" (Brealey and Myers, 2003, p. 509). This goes to say that companies making decisions on capital

structure should target a debt ratio where debt shields are maximized and the associated cost of bankruptcy is reduced (Cekrezi, 2013).

2.5 Empirical Studies on Debt Financing and Financial Performance

This section focuses on empirical studies on debt financing and performance of firms.

2.5.1 Level of Debt Finance and Performance in Developed Countries

The findings of researches from developed countries indicate a positive and negative relationship. A research by Simerly and Li (2000) revealed that the effect of financial leverage can either be positive or negative and this is dependent on various factors such as whether the company is operating in a stable or a dynamic business environment. The findings were as a result of using a regression model to analyze the effects of financial leverage on the performance of a sample of 700 large US companies in a variety of industry sectors over the period 1989 – 1993.

Weil (2008) through his research finding also noted that financial leverage is positively and significantly related to firm performance in Spain and Italy. There was a negative and significant relationship between the variables in Germany, Belgium, Norway, Portugal and France. The researcher used the maximum likelihood estimation to investigate the effect of financial leverage on the performance of 11,836 manufacturing firms operating in seven European countries covering a three-year period from 1998 – 2000.

2.5.2 Level of Debt Finance and Performance in Developing Countries

A research conducted by Abor (2005) in Ghana concluded that short-term and total debt positively and significantly influenced profitability. He used regression analysis to test the relationship

between capital structure and performance in terms of profitability of some 22 listed firms on the Ghana Stock Exchange which covered the period 1998 – 2002.

However, Abor (2007) found out that long-term and total debt ratios have an inverse relationship with the performance of 200 South African and 160 Ghanaian SMEs from 1998 to 2003. Generalized least squares regression was utilized in the study.

A study also by Tauseef et al (2013), examined the effects of debt financing on the financial performance of a firm and concluded that there exists a non-linear relationship between return on equity and debt-to-asset ratio established that while the debt-to-asset ratio increase, the return on equity initially incline to an optimal debt level, after which it starts to decline.

Makanga (2015) investigated the impacts of debt financing on the financial performance of listed at the Nairobi Securities Exchange. The study used a quantitative research design with the analysis done using linear regression model. The study revealed that short-term debt was negatively related to return on assets but not significant. The study also found that long-term debt was negatively correlated to return on assets but less significantly than short term debt and found a weak negative connection between return on assets and total debt.

The above empirical study gave conflicting results on debt financing and firm performance. While some studies found a positive relationship between the two variables, others found a negative relationship while others could not establish any significant relationship. The differences in the results could be as a result of differences in study area. This study therefore seeks to explore the relationship between these variables in SOEs in Ghana.

2.6 The Nature of State-Owned Enterprises (SOEs) in Ghana

The establishment of SOEs globally were the efforts of governments to improve the living condition of their locals in diverse ways which includes socio-economic and environmental conditions in the country. In that regard, expressions such as Parastatal Organisations (POs), Government Business Enterprises (GBEs), Government Corporations (GC), Public Enterprises (PEs), Public Sector Units (PSUs), Government-Linked Companies (GLCs), Government Controlled Enterprises (GCEs), Public Business Enterprises (PBEs), were used as synonyms (PwC, 2015; Simpson, 2013). Although the motivation for establishing SOEs may have changed over time, there seems to be an endless existence of the SOE sector in the global economic landscape (PwC, 2015; Kowalski et al., (2013)).

Ghana after independence engaged in rigorous industrialization by setting up a number of State-Owned Enterprises (SOEs) with the aim of creating jobs and make the country self-reliant. Christensen (1998) argued that Ghana's state-owned enterprises have performed poorly, not only during the economically disastrous period of the 1970s and early 1980s but also since the government introduced the Economic Recovery Programme in 1983.

The Ghana government established the SOE sector to improve the general economic outlook of the country through State-Owned Enterprises (Simpson, 2013; Appiah-Kubi, 2001; Uddin and Tsamenyi, 2005; Meng, 2004). The most evidence of all was during the Acheampong (NRC) regime where the government envisaged the SOE sector as the most powerful tool for economic prosperity leading to the establishment of 324 SOEs (Simpson, 2013; Appiah-Kubi, 2001). The obvious claims for the massive development of the SOE sector were not different from the global arguments of curbing natural monopoly, lack of private sector investments and particularly in Africa, high levels of foreign domination in the economy (Appiah-Kubi, 2001). However, due to

high financial and managerial burdens as a result of ineffectiveness, poor performance and inefficiencies in the SOE sector led to several reforms such as divestitures, privatizations and liquidations (Meng, 2004; Appiah-Kubi, 2001; Simpson, 2013; Nellis, 2005).

The reform of the public sector in general and of the state-owned enterprises (SOEs) has proven to be one of the most difficult aspects of structural adjustment in Africa. According to the World Bank (1994), little progress has been made and many attempts to improve the performance of SOEs have not been sustainable in the medium to long term. Even Ghana, which has been hailed as a successful macro-economic reform has been criticized for its failure to reform SOEs. Severe economic decline was felt in the 1980s. During that period, SOEs and other businesses in the country were brutally affected. The government, as a way of addressing the poor performance and inefficient operations of the State-Owned Enterprises, launched the SOE reform program in 1988 as part of Ghana's overall Economic Recovery Programme (ERP). The SOE reform program consists of measures to improve the performance of State-Owned Enterprises and the rationalization of the sector by means of divestiture programme (Appiah-Kubi, 2001).

2.7 Chapter Summary

The chapter focused on existing literature on debt financing and performance among corporations, theories and principles of capital structure.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

Chapter three focuses on systematic and theoretical analysis of the methods used during the study. It highlights the various research methods and procedures used in obtaining and analysing data for the study. The chapter emphasises on eight different sessions. Research design is the first part of the methodology. The second focuses on population of the study while the third is about the sample and sampling technique used for the study. The fourth section looks at data source and collection procedures. The fifth and sixth section focuses on description of variables and model specification respectively. The seventh part is about data analysis while the eighth section looks at profile of listed companies used for the research.

3.1 Research Design

Research design focuses on the purpose of the study which is to examine how debt financing affects financial performance of State Institutions in Ghana and as a result an explanatory research approach was used for this study. This approach was used because explanatory research helps in identifying and evaluating the causal relationships among different set of variables been considered in the research design (Marczyk et al, 2005). Explanatory research design would help in identifying how debt financing affects profitability, efficiency, liquidity and investor ratios of State Enterprises in Ghana.

Quantitative approach in data collection and analysis will be used for the research. This approach was chosen because quantitative research design provides strong, clear and powerful inferences than qualitative approach.

3.2 Population

The population of state institutions to be considered for the research is limited to 45 SOEs in Ghana.

3.3 Sample and Sampling Technique

The sample for this study is 22 State-Owned Enterprises representing 52% of the population. The reason for choosing this sample is as a result of data availability.

3.4 Data Source and Collection Procedures

Secondary data will be used for the study. The data used for the study were published annual reports of the State Institutions. The reports were obtained from the website of these SOEs.

A list of the SOEs were obtained from their website, then purposive sampling was used to select 22 firms. Annual reports of these companies from the year 2014 to 2017 were downloaded from the website of these firms.

3.5 Description of Variables

The variables used for this research was based on theories and existing research work on how debt is financed and their financial performance. Both dependent and independent variables have been selected to measure the financing of debt practices that affects the financial performance of State-Owned Enterprises.

3.5.1 Independent Variable

For the purpose of this study, debt financing is the independent variable. Debt financing refers to using debt to finance the total assets of a firm rather than from the sales of shares. Debt ratio is used to measure the independent variable. Debt ratio can also be referred as Total liabilities ratio (TL). Debt ratio is derived using Total Liabilities divided by Total Assets. Total liabilities ratio (TL) was used as the main measure of debt financing since it is regarded a more appropriate measure for debt financing. This is because the creditor will always consider the current debt and total liabilities of any firm to enable it give out loans taking into consideration a firm's debt in the long run.

3.5.2 Dependent Variable

The dependent variable for the study is financial performance and it was measured by return on assets and asset turnover (Haron, Hartadi, Ansari and Ishmael, 2009). Assagaf and Gunawan (2017) argued that five financial ratios help in determining the financial performance by categories. The financial performance is measured by whether a firm is strong or not bankrupt, gray, and weak or bankrupt. Every year, companies publish a written information that quantifies the financial performance of the company in their audited financial statements. This highlights the financial performance of a firm in the category of strong, medium and weak.

The dependent variables for the research are profitability and efficiency ratios. Profitability would be measured by Return on Asset (ROA) and Profit after taxation (Net Profit Margin).

- ROA measures how a company efficiently utilizes its resources in generating enough profits which includes profitability of MSEs before leverage (Harash and Essia, 2013). ROA can be defined as profit divided by total assets. A very strong financial standing of any company indicates a higher value of this ratio; hence a positive relationship is expected.

- Net Profit Margin is defined as net profit divided by revenue. If the value of this ratio is high, the company is said to be in a better financial health. Thus, a positive relationship is expected.
- Efficiency would be measured by Fixed asset turnover and Total Asset turnover. Efficiency ratios help to determine how a firm utilizes its resources to generate revenues. A higher value of this ratio indicates that managers can generate more revenue per unit of fixed assets.
- Total asset turnover is measured as sales divided by total assets. Higher value of this ratio indicates that a positive relationship is expected to generate more revenue.

Table 3. 1 Definition of Dependent Variables

RETURN ON ASSET	$\text{Net Income} \div \text{Total Assets}$
NET PROFIT MARGIN	$\text{Net Income} \div \text{Revenue}$
FIXED ASSET TURNOVER	$\text{Sales} \div \text{Net Fixed Assets}$
TOTAL ASSET TURNOVER	$\text{Sales} \div \text{Total Assets}$

3.6 Model Specification

Regression model will be used for the research.

3.6.1 Regression Model

A multiple regression technique is used in finding the impact of debt financing on financial performance measured by return on asset and total asset turnover. This technique was used because it is seen to be most appropriate model due to the nature of the data available. Moreover, the

dependent variables and the independent variables are continuous and not dichotomous hence the choice for the regression model.

The following models were used as the analytical model to address the research objectives:

$$ROA_{i,t} = \alpha_0 + \beta_1 DEBR_{i,t} + \beta_2 NPM_{i,t} + \beta_3 FAT_{i,t} + \varepsilon_{i,t} \quad \text{Eqn. 1}$$

$$TAT_{i,t} = \alpha_0 + \beta_1 DEBR_{i,t} + \beta_2 NPM_{i,t} + \beta_3 FAT_{i,t} + \varepsilon_{i,t} \quad \text{Eqn. 2}$$

Where:

ROA	=	Return on Asset
TAT	=	Total Asset Turnover
DEBR	=	Debt Ratio
NPM	=	Net Profit Margin
FAT	=	Fixed Asset Turnover
A	=	Constant term
ε	=	Error term
i	=	Number of firms
t	=	Time

All the terms vary across years and across State-Owned Enterprises.

3.7 Data Analysis

Descriptive, univariate and multiple regression analysis method have been utilized in analysing the data.

Important features of the variables such as means or averages, maximum, minimum and standard deviations were quantitatively used to define the descriptive statistics.

Univariate analysis used partial correlation to find the relationship between debt financing and each of the independent variables while holding other variables constant.

The multiple regression model was also used to show how debt financing as a whole affect financial performance of SOEs.

3.8 Profile of Companies

Out of 45 state-owned enterprise sampled for the study, 22 of them have been selected for the study. This section focuses on the profile of the 22 SOEs.

3.8.1 Ghana Oil Company Limited (GOIL)

Ghana Oil Company Ltd is an oil and gas industry established on 14th June, 1960. On 16th November 2007, it was listed on the Ghana Stock Exchange. The Board Chairman of the company is Mr. Kwamena Bartels while Mr. Patrick A. K. Akorli is the CEO and Managing Director.

3.8.2 Ghana National Petroleum Corporation (GNPC)

GNPC was established as a strategic commercial vehicle mandated to undertake the exploration, development, production and disposal of petroleum in the oil and gas industry. Government of Ghana has 100% shareholding. The Board Chair of the corporation is Freddie Blay and the Chief Executive Officer is Dr. Kofi Koduah Sarpong.

3.8.3 Ghana Ports and Harbour Authority (GPHA)

GPHA is a statutory corporation established under the PNDCL 160 of 1986. The Authority is responsible for the governance, maintenance and operations of the ports in Ghana. The Board Chair is Peter Mac Manu and the Chief Executive Officer is Paul Ansah.

3.8.4 National Investment Bank (NIB)

The National Investment Bank Ghana Limited was incorporated in 1963 as an autonomous joint state-private institution through an act of parliament (Act 163). Government of Ghana has 52.7% shareholding in the bank.

3.8.5 Ghana Reinsurance Company Limited (GRCL)

The Ghana Reinsurance Company Limited commenced operation in 1972 as the Ghana Reinsurance Organisation. It undertakes reinsurance of any class of business, including life insurance both within and outside Ghana. The Managing Director is George Y. Mensah.

3.8.6 Bulk Oil Storage and Transport Company Limited (BOST)

BOST is owned by Government. The responsibilities of the company include strategic storage, management and distribution of bulk petroleum stocks through depots sited at strategic locations across the country. Government of Ghana has 100% shareholding.

3.8.7 PSC Tema Shipyard (PSC)

The Tema Shipyard is one of the largest shipyards and dry docks on the African Continent. Tema Shipyard is equipped with suitable workshops for ship maintenance and heavy steel fabrication. The Chief Executive Officer is Captain Francis Kwesi Micah.

3.8.8 Ghana Grid Company (GRIDCo)

GRIDCo was established to provide Power Transmissions and enhance the efficiency in power delivery. GoG is the only shareholder with 100% shareholding. The Board Chair of the company is Kabral Blay-Amihere and the Chief Executive Officer is Jonathan Amoako-Baah.

3.8.9 Ghana Airport Company Limited (GACL)

GACL is a statutory corporation established to design, manage and maintain all airports in Ghana including Kotoka International Airports and other airstrips. The Board Chair of the company is Oboshie Sai Coffie and the Chief Executive Officer is John Dekyem Attafuah.

3.8.10 GIHOC Distilleries Company Limited

GIHOC Distilleries Company Limited was the first modern distillery to be established in West Africa. It was established in 1958 as the State Distilleries Corporation for the manufacture of alcoholic beverages. The Board Chair is Ebenezer Ebo Bartels and the Chief Executive Officer is Mr. Maxwell Kofi Jumah.

3.8.11 Ghana Water Company Limited (GWCL)

The Ghana Water Company was established as a utility company to provide potable water supply to all communities within the country. The Board Chair is Alexander Afenyo-Markin and the Chief Executive Director is Clifford A. Braimah.

3.8.12 Tema Development Company Limited (TDC)

TDC is a real estate development and management entity in Ghana, established in 1952 by the Tema Development Corporation Ordinance 1952 (No. 135 of 1952) and was charged with the duty of securing the layout and development of the new town and port of Tema. The Chairman of the Board is Elizabeth Mansa Banson and the Chief Executive Officer is Alice Ofori-Atta.

3.8.13 Ghana Cocoa Board (COCOBOD)

Ghana Cocoa Board was established in 1947 with the main objective of supporting the production, purchase and promotion of cocoa, coffee and shea, as well as promoting scientific research to

improve crop yield and species. The Board Chair is Hackman Owusu Agyemang and the Chief Executive Officer is Joseph Boahen Aidoo.

3.8.14 Ghana Civil Aviation Authority (GCAA)

GCAA was established to provide safe, secure, efficient and effective aviation regulations, air navigation and regulatory services in a professional and environmentally responsible manner.

3.8.15 State Insurance Company (SIC)

The State Insurance Company (SIC) was founded in February 1962 through an executive instrument by the Government of Ghana which took over Ghana Cooperative Insurance Company and reconstituted it into State Insurance Company. The company is one of the leading providers of general or non-life insurance products in the country. Its business operations cover fire, motor, marine, aviation and accident insurance. The Chief Executive Officer is Stephen Oduro.

3.8.16 Precious Minerals Marketing Company (PMMC)

The Precious Minerals Marketing Company was incorporated as a State-Owned Enterprise in 1989. Prior to its incorporation, the company operated as the Ghana Diamond Marketing Board between 1963 and 1989. PMMC trades in gold, diamonds, precious and semi-precious stones, and the production of jewelry. The Board Chair is Kiston Ohemeng Kissi and the Chief Executive Officer is Kwadjo Opare-Hammond.

3.8.17 Volta Aluminium Company Limited (VALCO)

The Volta Aluminium Company Limited (VALCO) is a limited liability company whose mandate is to smelt alumina to produce aluminium ingots for both local and international markets. GoG is the only shareholder with 100% shareholding. The Chief Executive Officer of the company is Mr. Daniel Acheampong.

3.8.18 Tema Oil Refinery (TOR)

The Tema Oil Refinery was created in 1963 and it was owned by the Ente Nationalie Indrocarburi. Government of Ghana (GoG) became the sole shareholder in 1977. By the end of 2016, GoG was the only shareholder with 100% shareholding. The Managing Director is Dr. Isaac Osei.

3.8.19 Volta River Authority (VRA)

VRA is a statutory corporation whose mandate covers the generation and supply of electricity from both hydro and thermal sources. As part of their mandate, the Authority oversees the construction and operation of the Akosombo dam and hydroelectric generating station. Government of Ghana (GoG) has 100% shareholding. The Chief Executive Officer is Emmanuel Antwi-Darkwa and the Board Chair of the company is Kweku Andoh Awotwi.

3.8.20 Ghana Commercial Bank (GCB)

GCB Bank provides expert financial solutions that help people and businesses realize their ambitions. The Chief Executive Officer of the bank is Anslem Ray Sowah.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.0 Introduction

This chapter outlines the results of the various analyses undertaken in line with the noted objectives of the study. The descriptive statistics of the various variables utilised in the study are discussed first. Besides a correlation analysis has been conducted followed by a variance inflation factor analysis to ensure that the variables do not suffer from multicollinearity. Following that is the regression analysis results based on the various objectives of the study.

4.1 Descriptive Statistics

The results of the descriptive analysis are presented in Table 2. The results indicated that on average, the debt financing of the state-owned-enterprises varies across all state-owned-enterprises. The minimum debt financing is at 6% while the maximum is at 224.7%. Also, the average return on asset is -0.3% and varies across all the state-owned-enterprises used in the study. The minimum return on asset is -51.3% and the maximum is at 44.1%. This reveals the inefficiency of state-owned enterprises in generating profit. While it may be the mandate of these organisations as a result of the Act under which they are established to provide social goods, they should at least cover their costs so as to ensure they can exist for the foreseeable future. In continuation, the net profit margin on average is 5.6% and it varies across all state-owned-enterprises. The minimum net profit margin is -327.6% and the maximum is 104.7%. This also reveals the low efficiency of state-owned enterprises in covering their costs. In addition, the average fixed asset turnover is 172.4% and it varies for all state-owned enterprises. The fixed asset turnover at its minimum is 6.3% and at its maximum is 1872.9%. On the other hand, the average of total asset turnover is 72.6%. The minimum for total asset turnover is 6.1% and its maximum is 642.4%.

Table 4. 1 Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
DEBR	84	0.619	0.390	0.060	2.247
ROA	84	-0.003	0.137	-0.513	0.441
NPM	84	-0.056	0.640	-3.276	1.047
FAT	83	1.724	3.065	0.063	18.729
TAT	84	0.726	1.128	0.061	6.424

Notes: *DEBR is debt ratio; ROA is return on asset; NPM is net profit margin; FAT is fixed asset turnover and TAT is total asset turnover.*

4.2 Evolution of Performance of State-owned-enterprises in Ghana

To provide an insight into how profitability (return on asset) and productivity (total asset turnover) has evolved over the study period, a pictorial analysis has been presented in Figure 4.1. The results indicated that profitability was 2.83% in 2014 but it declined to -3.59% in 2015 and -0.53% in 2016. The result also indicated that in 2017, profitability was 0.19% for the sampled state-owned enterprises. This shows that profitability for state-owned enterprises has been declining. In addition, productivity of the state-owned enterprises has been declining over the study period. This is evidenced by the decline in the total asset turnover ratio over the period. In 2014, an average of 76.12% was recorded but this decreased to 67.65% in 2016 and 66.54% in 2017.

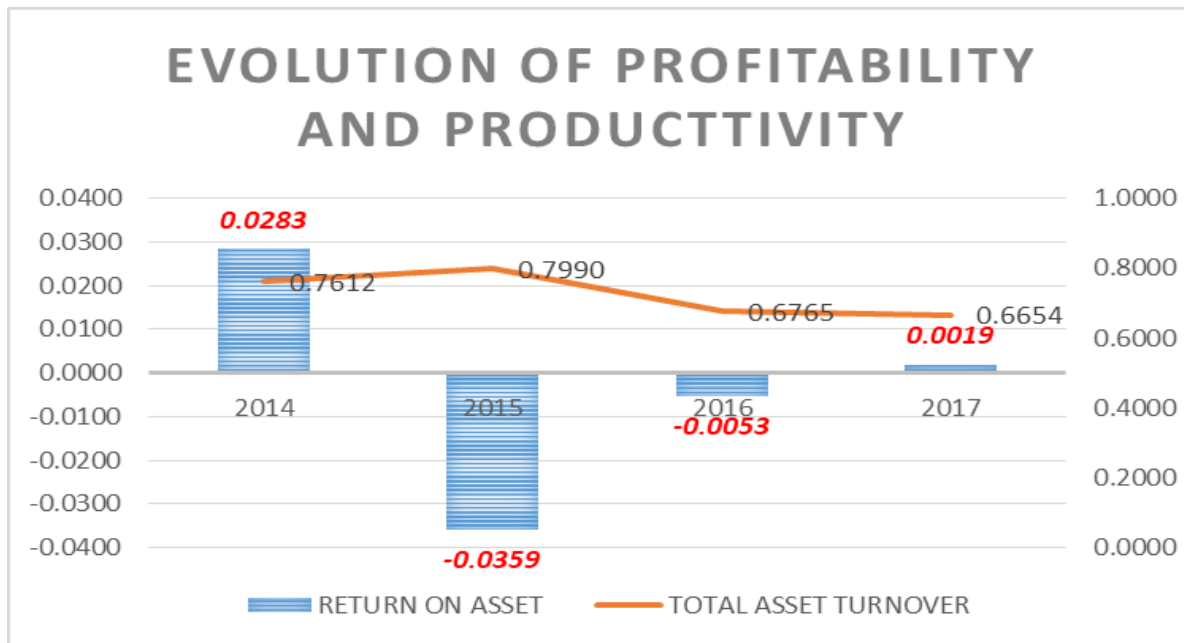


Figure 4. 1 Evolution of Profitability and Productivity among State-Owned Enterprises

4.3 Multicollinearity Tests

The results laid out in Table 4.2 illustrates the pairwise correlation matrix of the various variables utilized in the study at their significant levels. The correlation between debt financing and net profit margin is negative but significant. The correlation between fixed asset turnover and debt financing is positive but insignificant and the correlation between fixed asset turnover and net profit margin is also positive but insignificant. According to Kennedy (2008) where the correlation coefficient is above 0.7, the model could suffer from multicollinearity. However, since the results indicated that there is not possibility of multicollinearity since the highest coefficient is 0.641 in absolute terms. To provide a further check, a variance inflation factor analysis has been conducted as presented in Table 4.3. Wooldridge (2016) argued that the rule of thumb for the highest variance inflation factor accepted for variables in a regression equation should be 10. Thus, any value recorded above 10 will suggest that multicollinearity exists among the variables which are independent. Since the highest variance inflation factor recorded in this case is 1.805 which is far

below 10, it suggests that multicollinearity does not exist, hence the independent variables can be used.

Table 4. 2 Pairwise correlations

Variables	(1)	(2)	(3)
(1) DEBT RATIO	1.000		
(2) NPM	-0.641***	1.000	
(3) FAT	0.112	0.072	1.000

Notes: *NPM is net profit margin; FAT is fixed asset turnover and “***” shows significance at the 0.01 (1%) level.*

Table 4. 3 Variance inflation factor

	VIF	1/VIF
DEBT RATIO	1.805	0.554
NPM	1.791	0.558
FAT	1.051	0.951
Mean VIF	1.549	.

Notes: *NPM is net profit margin and FAT is fixed asset turnover.*

4.4 Effect of Debt Financing and Capital Requirement on Performance

Table 4.4 presents the regression results of the effects of debt financing and capital requirements on return on asset. The effect of debt financing on return on asset is negative and is statistically significant at 10%. This suggests that when equity increases in state-owned enterprises, it results in the decline of their performance in terms of returns on asset. This suggests that the agency theory is very prevalent in state-owned enterprises in Ghana. In effect, high equity capital motivates

managers in state-owned enterprises in Ghana to make suboptimal decisions which results in decline in profitability. Also, the effect of net profit margin on return on asset is positive and is statistically significant at 1%. This suggests that state-owned enterprises that can reduce their costs of operation and increase the margin they make on each sale are also able to enhance the total returns on assets. The effect of fixed asset turnover on return on asset is also positive and statistically significant at 10%. This provides statistical evidence suggesting that where state-owned companies can use their fixed assets efficiently, they are able to enhance their profitability.

These results are based on the analysis which yields an R-squared of 0.65 suggesting that 65% of the variability in the dependent variable, total asset turnover, has been explained by the independent variables. In addition, as indicative of the p-value of the overall model, there is suggesting that the model is statistically significant at 1% and thus the results are valid.

Table 4. 4 Debt Financing, capital requirement and return on asset

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
DEBT RATIO	-0.052	0.031	-1.67	0.099	-0.115	0.010	*
NPM	0.147	0.019	7.71	0.000	0.109	0.185	***
FAT	0.006	0.003	1.87	0.066	0.000	0.012	*
Constant	0.028	0.020	1.37	0.175	-0.013	0.068	
Mean dependent var		-0.004	SD dependent var			0.138	
R-squared		0.650	Number of obs			83.000	
F-test		48.995	Prob > F			0.000	
Akaike crit. (AIC)		-173.834	Bayesian crit. (BIC)			-164.159	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Notes: ROA is return on asset; NPM is net profit margin and FAT is fixed asset turnover.

Table 4.5 presents the regression results of the effects of debt financing and capital requirements on total asset turnover. The effect of debt financing on total asset turnover is positive. This suggests that where the equity base of the companies increase, their productivity also increases.

Notwithstanding, the results are not statistically significant. Also, the effect of net profit margin on total asset turnover is negative and statistically insignificant. This suggests that the state-owned enterprises that can reduce their costs and increase their margins are not necessarily productive. The effect of fixed asset turnover on total asset turnover is positive and statistically significant at 1%. This provides statistical evidence suggesting that where state-owned companies are able to use their fixed assets efficiently, they are able to enhance their productivity.

These results are based on the analysis which yields an R-squared of 0.948 suggesting that 94.8% of the variability in the dependent variable, total asset turnover, has been explained by the independent variables. In addition, as indicative of the p-value of the overall model, there is suggesting that the model is statistically significant at 1% and thus the results are valid.

Table 4. 5 Debt Financing, capital requirement and total asset turnover

TAT	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
DEBT RATIO	0.028	0.100	0.28	0.776	-0.170	0.226	
NPM	-0.005	0.060	-0.09	0.930	-0.126	0.115	
FAT	0.360	0.010	37.03	0.000	0.340	0.379	***
Constant	0.094	0.065	1.46	0.149	-0.034	0.223	
Mean dependent var		0.732	SD dependent var			1.133	
R-squared		0.948	Number of obs			83.000	
F-test		481.387	Prob > F			0.000	
Akaike crit. (AIC)		17.716	Bayesian crit. (BIC)			27.392	

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Notes: TAT is total asset turnover; NPM is net profit margin and FAT is fixed asset turnover.

4.5 Chapter Summary

This chapter presents the empirical results of the study. First, the descriptive statistics of the variables used in the study was discussed. Secondly, an evolution of performance of State-Owned Enterprises in Ghana was conducted. The study further shows the multicollinearity tests using the pairwise correlation matrix of the various variables used in the study and the effect of debt financing on performance was also discussed all at their respective significance levels.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter is the concluding part of the study and it highlights on findings and makes recommendations. The chapter is divided into four sections. The first section talks about the summary of findings, the second section discusses the general conclusion of the study. The third section is about recommendations while the last part makes suggestions for further study.

5.1 Summary of findings

This study aimed at finding out the impact of debt financing on the performance of state-owned enterprises in Ghana. The conceptual model for the study constituted debt financing as the independent variable while financial performance was the dependent variable. The study conducted a census of 45 SOEs in Ghana and collected data for a period of 4 years from 2014 to 2017. The study however managed to collect data from 22 State-Owned Enterprises.

The results of the descriptive analysis indicated that on average, the debt financing of the state-owned-enterprises varies across all state-owned enterprises. The minimum debt financing is at 6% while the maximum is at 224.7%. This reveals a relatively high level of debt financing among state-owned enterprises in Ghana. Also, the average return on asset is -0.3% and varies across all the state-owned-enterprises used in the study. The minimum return on asset is -51.3% and the maximum is at 44.1%. This reveals the inefficiency of state-owned enterprises in generating profit. While it may be the mandate of these organisations as a result of the Act under which they are established to provide social goods, they should at least cover their costs so as to ensure they can

exist for the foreseeable future. In continuation, the net profit margin on average is 5.6% and it varies across all state-owned-enterprises. The minimum net profit margin is -327.6% and the maximum is 104.7%. This also reveals the low efficiency of state-owned enterprises in covering their costs. In addition, the average fixed asset turnover is 172.4% and it varies for all state-owned-enterprises. The fixed asset turnover at its minimum is 6.3% and at its maximum is 1872.9%. On the other hand, the average of total asset turnover is 72.6%. The minimum for total asset turnover is 6.1% and its maximum is 642.4%.

The regression results of the effects of debt financing and capital requirements on return on asset indicated that the effect of debt financing on return on asset is negative and is statistically significant at 10%. This suggests that when equity increases in state-owned enterprises, it results in the decline of their performance in terms of returns on asset. This suggests that the agency theory is very prevalent in state-owned enterprises in Ghana. This provides statistical evidence suggesting that where state-owned companies can use their fixed assets efficiently, they are able to enhance their profitability.

In addition, efficiency (total asset turnover) of the state-owned enterprises has been declining over the study period. This is evidenced by the decline in the total asset turnover ratio over the period. In 2014, an average of 76.12% was recorded but this decreased to 67.65% in 2016 and 66.54% in 2017. The regression results of the effects of debt financing and capital requirements on total asset turnover is positive. This suggests that where the equity base of the companies increase, their productivity also increases. The study provides statistical evidence suggesting that where state-owned companies are able to use their fixed assets efficiently, they are able to enhance their productivity.

5.2 Conclusions

The study reveals a high level of debt financing among state-owned enterprises in Ghana. The average return on asset reveals the inefficiency of state-owned enterprises in generating profit.

This shows that profitability for state-owned enterprises has been declining. The study provides statistical evidence suggesting that where state-owned companies are able to use their fixed assets efficiently, they are able to enhance their productivity.

5.3 Recommendations

The research findings have led to the following recommendations.

- State-owned enterprises in Ghana should use less level of debt because it decreases the performance of SOEs in Ghana.
- The SOEs should focus on their internal source of financing because it provides cheap and reliable source of finance.
- The optimal level of capital structure should be used by SOEs because high level of debt causes the companies to be insolvent.
- Government should provide prompt equity financing to SOEs rather than allow managers to go in for debt financing which increases cost of operations leading to poor performance.

5.4 Further Studies

- Future researchers should explore other factors that influence financial performance of state-owned enterprises in Ghana besides debt policy.
- Future research should investigate the determinants of debt financing of state-owned enterprises over a longer period of time and over a number of economic cycles.

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