BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY

INVESTIGATING THE EFFICIENCY OF FINANCIAL DISTRESS PREDICTIONS ON COMPANIES LISTED ON THE ZIMBABWE STOCK EXCHANGE. A STUDY OF STAR AFRICA CORPORATION.

BY

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A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE BACHELOR OF ACCOUNTANCY HONOURS DEGREE.

JUNE 2023

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Title of Dissertation: Investigating the efficiency of financial distress predictions on companies listed on the Zimbabwe stock exchange. A case study of Star Africa Corporation.

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DEGREE TITLE	Bachelor of Accountancy Honours Degree.
YEAR OF COMPLETION	2023

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I, Laison Musadambwe declare that this project herein is my own work and has not been copied or lifted from any source without acknowledgement of the source.

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DEDICATION

I would like to dedicate this project to my late mother who showed love and support from the beginning of this journey even though she could not make it to the end, may her soul continue to rest in peace. To my father and sisters, thank you for your support and for always being there during the hardest of times.

ACKNOWLEDGEMENT

I would like to express my utmost gratitude to my Project Supervisor, Mr Ngwende for his guidance, commitment and patience. Without his guidance this dissertation would have not been a success. I would also like to extend my appreciation to my family and academic friends for their time, support, patience, encouragement and sacrifice in assisting me. Above all glory to the Almighty God for giving me strength to pull through this journey.

ABSTRACT

The purpose of the study is to investigate financial distress predictions of companies listed on the Zimbabwe stock exchange so that appropriate action can be taken to address the situation. Star Africa Corporation was selected as a case study for this research because the company is listed on the Zimbabwe stock exchange and it has gone under financial distress, hence this company seemed appropriate for the research. In this study the target population consisted of financial and accounting managers from Star Africa Corporation. The researcher used a descriptive survey research design and adopted a mixed methods approach in which both quantitative and qualitative data were used. Primary data was collected through interviews and questionnaires

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

Firms that are under financial distress exhibit certain characteristics which include; disproportionate use of financial leverage, chronic shortage of cash and other liquid current assets and excessive level of current liabilities. The causes of financial distress range from inefficient management of financial activities, inappropriate marketing and production strategies and macroeconomic issues such as economic recession, high interest rates, and credit crunch in the financial markets (Baldwin and Glezen, 2017). Firms that are listed on the stock exchange also show certain characteristics which include; high levels of debt, frequent defaults on credit, poor levels of cash, and, most importantly, negative revenue income. Most developing countries such as Zimbabwe have experienced slow down on their economic growth because of financial distress that occurs in many companies every year (Chowdbury & Barua, 2019). Therefore, in a bid to avoid the prevalence of financial distress among firms that are listed on the stock exchange , there is need for prediction systems to be put in place in order to forecast the financial position of a firm ad be prepared to make corrective measure so that the company is not forced out of business.

1.1 Background of the study

Due to the rising cost of production in the manufacturing industry in Zimbabwe, financial distress prediction has become an important phenomenon. The motivation for research of financial distress predictions is important because it allows firms to understand the future position and to take precautionary measures ahead of time (Mohammed, 2020). In this case, financial distress has serious effects on companies that are listed on the stock exchange such as bankruptcy and at times closure of companies (Ashraf, 2019). It is important for companies to analyse factors that may lead to financial distress and take measures to prevent such a situation from taking place. The aim of the study is to analyse the efficacy of financial distress of companies that are listed on the stock exchange.

There are many reasons that contribute to the failure of firms. In most cases, internal factors such as poor management practices, competition from other companies in the same industry and poor adaptation to technological changes. External factors such as harsh government policies also contribute to the failure of corporate entities.

Zimbabwe is one of the countries that is difficult for companies to operate in because of high production cost and high competition from goods from other countries. Muparuri (2021) recorded that 128 companies were under financial distress in the year 2021. The African Reports (2014) suggest that due to the prevailing economic conditions, companies under distress struggle to survive and their products and processes are kicked out of the market. Therefore, financial distress predictions are important for companies such as Star Africa Corporation that are listed on the stock exchange in order to forecast the future status of the company. The research will enlighten companies on the need to re-tool and modernise through financial distress predictions.

The failure of most companies to anticipate financial distress is a cause for concern as this has devastating effects (Buchdad, 2020). Therefore, if companies are able to recognize financial distress earlier, then appropriate action can be taken to reverse the process before it is too late. This study seeks to analyse the importance of financial prediction to companies listed on the Zimbabwe Stock Exchange so that appropriate action can be taken to address the situation. Star Africa Corporation has been selected as a case study for this research because it is one of the companies that are listed on the stock exchange and it has gone under financial distress, hence this company seems to be appropriate for the research.

Star Africa Corporation is among the companies listed on Zimbabwe Stock Exchange and it was established in 1953 and principally a sugar refinery company. It manufactures and markets sugar-based products under two well-known brands; Gold star sugar and Country Choice Foods, its products range comprises icing sugar, golden syrup, honey syrup and maple syrup (Menon & Schwarts, 2018). Star Africa Corporation has been in economic distress since 2014 and has been struggling to succeed in the market place, hence it has become unattractive for investors as well as its shareholders. In 2019, Star Africa Corporation’s financial statement showed that the company encountered a loss of US$16 375 557 which shows that the fortunes of the company are not that bright (Menon & Schwarts, 2018). Therefore, there is need for a research to unveil the importance of financial distress predictions for companies that are listed on the stock exchange.

1.2 Statement of the problem

Companies that are listed on the ZSE have been facing perennial financial distress because of the hostile environment that they operate in. The cost of financial distress is high and it can result in business closure in extreme cases. Firms can avoid this turmoil by forecasting imminent financial distress and by identifying causes of the distress and adopting corrective measures. Firms that are facing financial distress struggle to source for funds and the market value of such a firm falls significantly chasing away potential investors and the company risks losing its customers. At this juncture, the current study finds a scope to play a contributing role in investigating the impact of financial distress prediction for companies that are listed on the Zimbabwe Stock Exchange. This research aims to identify the causes of financial distress and investigate the financial distress determinants for companies that are listed on the ZSE. Financial distress prediction system plays a significant role in analysing the future financial status of a company and the financial risks that a company is likely to incur. This information helps in alerting the business owners of such risks before it actually happens. Therefore, the study aims to investigate the causes of financial distress predictions of companies that are listed on the ZSE such as Star Africa Corporation.

1.3 Purpose of the study

The aim of the research is to investigate financial distress predictions of companies that are listed on the Zimbabwe Stock Exchange.

1.4 Objectives of the study

- To identify the causes of financial distress on companies listed on the Zimbabwe Stock Exchange.
- To analyse the impact of financial distress on listed firms.
- To investigate the impact of financial distress predictions on companies listed on the Zimbabwe Stock Exchange.
- To analyse the financial distress determinants on companies listed on the stock exchange

1.5 Research questions

- What are the causes of financial distress on companies listed on the Zimbabwe Stock Exchange?
- What is the impact of financial distress on listed firms?
- What is the impact of financial distress predictions on companies listed on the stock exchange?
- What are the financial distress prediction determinants on companies listed on the stock exchange?

1.6 Significance of the study

Zimbabwe's economy has been associated with a lot of vices which include hyperinflation, high interest rates and depreciating local currency which make it difficult for most firms to operate in the country. The research under study is important because it will assist firms to understand the importance of financial distress predictions and warning signs to look out for before the situation escalates out of control. Companies that are operating in a turbulent market environment will benefit from understanding the financial forecast of its firm and take corrective measures to ensure that the company stays in business. Star Africa Corporation is one of the companies listed on the Zimbabwe Stock Exchange, hence it has been selected as a case study for this research because it has undergone financial distress and it has made tremendous strides in recovering from this shock. Therefore, this research is important because it will highlight the red flags that the companies need to look out for and the impact of financial distress predictions on companies that are listed on the stock exchange.

1.7 Delimitations of the study

The study is going to be mainly focused on the financial distress predictions of companies that are listed on the stock exchange in Zimbabwe, a case study of Star Africa Corporation. Information about Star Africa Corporation financial status may be difficult to obtain from the financial and accounting managers who may be hesitant to share information about the company. In order to solve this potential problem, the researcher will seek for permission and further enquiries from the responsible authorities of the company

1.8 Limitations of the study

- The researcher may face financial difficulties to travel to and from the organisation.
- Time constraints is another challenge that the researcher may face. The researcher being a full-time student, may have limited time to conduct the full research due to other educational commitments.

1.9 Assumptions of the study

The Zimbabwean economy has continued to worsen due to challenges associated with increased policy uncertainty, currency crisis, hyperinflation and dysfunctional service delivery. Against this local socio-economic climate background, companies listed on the stock exchange in Zimbabwe are faced with unprecedented challenges. The general assumption of the study is that as a result of the aforementioned factors, companies in Zimbabwe therefore, need to understand the efficacy of financial distress predictions.

1.10 Definition of key terms

Financial distress- can be defined as a situation in which a company struggles to generate enough revenue to cater for all of its operational costs thereby making it difficult for the company to survive and stay in business. This normally takes place as a result of high production costs and failure of the business to adjust to harsh economic environment (Aziz & Lawson, 2015).

Financial distress predictions- is defined as the capability of a company to forecast the future financial status of its operations, in this case, the company is able to see that it will face financial distress in the near future. Prediction accuracy is important because a firm has time to take preventive measures before it actually gets into financial distress ((Bhatacharjee, 2015).

Zimbabwe Stock Exchange- is the official stock exchange platform that allows companies to source for funds and potential investors to invest in successful businesses and gain profits in return (Tamari, 2018).

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter explores the financial distress as a phenomenon and why it has become a major concern for companies and policy makers around Zimbabwe and the world at large. This chapter reviews literature from previous studies and analyses what has been written with regards to financial distress. Hart (1998) states that literature review is mainly concerned with finding available information regarding a particular area of study in order to draw conclusions and gain a deeper understanding about a particular phenomenon. The researcher will indicate the man ideas of other researchers on financial distress of companies and the importance of financial distress predictions and its shortcomings.

2.1 Theoretical framework

2.1.0 Financial distress theory

This theory propounds that there are internal and external factors that can cause a company to face financial distress, that is, there are there are systems within the organization that can cause financial distress (Karels and Plakash, 2018). The external factors affect all companies in the industry and no company is immune to these push factors (Bibeault, 2016). The internal factors can be caused by poor management of the internal affairs of the organization and this can manifest in the form of poor communication, failure to handle the firm’s projects and overexpansion. Therefore, Bibeault (2016) argue that poor corporate governance can lead to financial distress especially if the firm is made up of incompetent and insubordinate employees, this can be difficult for a firm to move forwards. According to Dealdey (2018) poor financial reporting systems is the major cause of financial distress in bigger firms, hence there is need for proper handling of the firm’s business.

External factors are not related to the internal control system of the organization and they emanate from changes n the economic environment, harsh government policies, hostile political environment and advancement in technology (Nwogugu, 2014). The involvement of the government in the business sector contribute to the failure of corporate failure, Nwogugu (2014) argue that the economic forces of demand and supply should determine business operations without government involvement. The involvement of government regulations causes instability and this leads to financial distress (Nwogugu, 2014). However, Muriithi

(2016) came up with a different perspective, he speculates that financial distress is caused by a firm's failure to adapt to changes in the macroenvironment. He goes on to say that the management of a company should be able to anticipate the changes in the external environment and ensure that the company is better prepared to deal with these changes. Therefore, this study aims to investigate the impact of financial distress predictions and how it can assist companies to prepare for any form of financial distress sign.

2.2 Conceptual Framework

2.2.0 Concept of financial distress

Financial distress refers to the failure of a firm to cater for its financial obligations which include operational costs, overheads and other debts as a result of poor cash flows (Beaver, 2017). There are many causes of financial distress which include poor management, high costs of production and other macroeconomic issues such as economic meltdown, high interest rates and harsh economic policies (Baldwin and Glezen, 2019). There are certain characteristics which are common among firms that are undergoing financial distress; high levels of debt, poor revenue base and defaulting on credit payment. Many firms across the globe have been experiencing financial distress and companies in the developing world that fall into the peril of financial distress find it difficult to recover.

Financial distress describes a scenario where a company finds it difficult to meet all of its financial obligations which might lead to bankruptcy. In this case, firms under financial face multiple struggles which include losses, loss of customers, suppliers and employees. Financially distressed firms also encounter reduced stock prices and closure of operational plants (Purnananndam, 2018). Since manufacturing industry plays a significant role in the Zimbabwean economy, it is strongly connected to other industries. Therefore, the failure of firms in the manufacturing industry will have devastating effects to other firms in the economy (Ray, 2015).

Companies operate in a dynamic environment where its margins are constantly affected by a myriad of internal and external factors. A combination of these factors can potentially contribute to financial distress. The increasing hostile economic conditions and complex socio-political environment and constant changes in regulatory policy are pushing factors that can potentially affect the financial health of a company. Therefore, the ability of a company to forecast its financial status is important because it will help the company to put in place measures to avoid the distress from happening. The operating conditions of a firm that is under financial distress deteriorates and this leads to a heavy financial burden on the company (Benmelech et al., 2018).

Financial distress has negative effects on the organization and in most cases, it leads to bankruptcy and closure of firms (Wesa & Otinga, 2018). Recently many firms have been going into financial distress in Zimbabwe because of hostile government policies, hyperinflation, unstable foreign currency exchange rate, political unrest and poor infrastructure facilities (Zhang et al., 2015). The aforementioned factors have negative repercussions on the organization and greatly threatens their survival.

Zimbabwe has been regarded as a difficult country for businesses to operate in, this is because a total of 87 companies were forced to shut down due to financial distress in 2014 (African Report, 2014). All the closed companies showed common characteristics which include high production costs, competition from other imported goods and defaulted payment of creditors (African Report, 2014). Therefore, financially distressed companies listed on the Zimbabwe Stock Exchange become unattractive to potential investors, hence the companies are unlikely to recover as their products and services may become obsolete. In this regard, financial distress continues to haunt firms and eventually they may be forced to shut down their operations (African Report, 2014). According to Mubika (2019) many companies that are facing financial distress are struggling to pay their employees on a regular basis, thus accumulating salary arrears. In order to address this challenge, companies may downsize their operations and retrench some employees in a bid to survive.

According to CGAC (2009) the scandals and failures owing to serious flaws and lapses in corporate governance standards exposed the fact that if banks and other financial institutions are not effectively regulated, they will be prone to bouts of instability which would affect other banks and the entire national financial system. Despite the financial turmoil and banking crisis which started in pre-dollarization era and spilled over into multi-currency era, the Reserve Bank remained resolute on saying that the financial sector stability is firm. According to the Monetary Policy Statement (2004), the year 2003 presented the greatest test ever to the resilience and agility of the country’s financial sector, which broadly remained firm on the rails, in the face of confined cases of technical, financial, fraudulent and cosmetic mismanagement traits.

A similar sentiment appeared in the RBZ (2011 & 2012), despite more than a decade of financial tumult after the 2003 crisis, the banking sector remained in safe and sound condition by 2011 notwithstanding underlying risks posed by operating environment notably volatile deposits, absence of interbank market and lack of effective lender of last resort function, market illiquidity, cash based transactions and limited access to external credit lines. The major causes of the Zimbabwe financial rumpus and collapse of banking institutions since 2003 included poor corporate governance characterized by improper constitution of boards of directors, poor board oversight, inexperienced management, and undue influence or dominance by a few shareholders, and insufficient regulatory framework.

Inadequate risk management systems and poor management information systems; speculative activities and abuse of reserve bank’s liquidity support to fund non-banking subsidiaries and associates; rapid ill-planned expansion drives which exposed some institutions as their capital bases failed to sustain excessive expansion; creative accounting through misrepresenting financial positions, concealing of losses by creating fictitious assets and understating expenses and liabilities; overstatement of capital positions via under provision of nonperforming loans, use of depositors’ and borrowed funds to create adequate capitalization; high levels of non-performing insider loans with some banks disregarding setting prudential lending limits to insiders and related parties which were eventually written off; unsustainable earnings through high paper profits by revaluation of assets; and chronic liquidity problems (Kupakuwana, 2012; Mambondiani et al, 2012).

Star Africa Corporation is one of the companies that is listed on the Zimbabwe Stock Exchange, but it has been experiencing financial distress since 2014. Although the company has made tremendous strides in trying to recover from the peril of financial distress, the firm is still encountering some drawbacks in trying to retain its original glory (Mandibaya, 2022). Star Africa Corporation lost $133,47 million in the financial year of 2022 because of the fluctuating sugar prices on the market and high operating costs (Mubika, 2022). This is because of the depreciation of local currency and unstable and unregulated exchange rates on the informal market also known as the black market (Mubika, 2022). These push factors drove up the firm’s operational costs and the company tax went up; hence the firm was unable to meet its financial obligations. The increase in the global inflationary pressures has resulted in high costs of imported chemicals, packaging and other refinery spares (Mandibaya, 2022).

Onset of financial distress of other firms can be caused by a default of one firm in the same industry. This is especially the case whereby firms hold significant liabilities of the defaulting firm. For example, in the recent financial crisis experienced during the Corona virus pandemic, banks and other firms sought to limit their interbank exposures by dumping various classes of assets, which magnified price declines of basic commodities because of the closure of industries due to the mandatory nation-wide lockdown (Monroes, 2020). As auction market collapsed in September 2020, banks scrambled to hoard reserves as a means of self-insurance against prospective liquidity needs, which aggravated declines in risky asset prices (Heider, Hoerova, and Holthausen 2020).

2.3 Financial distress predictions

The rapid changes in the economy for instance in 2008, 2014, 2020 due to the insurgence of the novel Corona virus pandemic and 2022 as a result of the political strife between Ukraine and Russia are some of the factors that have led firms towards financial distress (Qureshi, 2021). The Zimbabwe Stock Exchange has encountered the worst stock market crisis as a result of global political crises and financial and economic meltdown at the local level (Dichev, 2020). Therefore, with so much uncertainty and turbulent operating environment, the importance of predicting financial distress cannot be overemphasized. This study will help the corporate managers and other stakeholders to realize the importance of financial distress predictions and the variables that can be used to determine the financial soundness of a firm.

Developing countries such as Zimbabwe lack clear bankruptcy laws and procedures therefore, financial distress predictions provide protection to companies listed on the Zimbabwe Stock Exchange from the unstable business environment. Furthermore, the absence of financial distress predictions might result in a shocking and devastating financial crisis for a company (Rand, 2014). Therefore, financial distress predictions act as an umbrella which brings an encouraging operating environment by providing protection against possible losses of many kinds (Enyew et al., 2014). Early financial distress warning systems are important because they detect problems in the organization before they materialize and cause real time problems for the organization.

2.4 Causes of financial distress

2.4.0 Poor debt management

Financial distress of a firm is determined by the debt service coverage ratio, because the firm is classified as distressed if in any of two consecutive years it has been unable to settle its financial obligations with its creditors. Therefore, if the debt service coverage is lower than eighty percent of the firm's interest expense the firm is regarded to be financially distressed. This marker incorporates the fact that a firm facing financial distress usually experiences a decline in profitability, and also is over leveraged or has insufficient cash flows to cover current obligations (Asquith et al. 2014). Financial distress may facilitate problem of liquidity, profitability, leverage and efficiency on firms through failure and insolvency as a result of unremitting losses over an extended period of time. Furthermore, financial distress may impact on debt service coverage because financial distress causes the cessation of operation and non-payment of current obligations due to cash flow problems. The firm's total liabilities are in excess of total assets, and the formal declaration of bankruptcy (Altman 2015). Thus, because of the aforementioned reasons, financial distress decreases the firm's debt service coverage. Debt service coverage increment improves a firm's profitability, liquidity, leverage, efficiency and hence FD effect on firm is very minimal (Altman, 2015).

2.4.1 Economic instability

According to Ongore (2013) external factors are those which are outside the control of an entity. In the study by OCC (1988), depressed or poor environments were the product of the deterioration in the commercial real estate, oil and gas or agricultural sectors. A company's failure having operated in depressed or poor local economies does not mean that the failure was largely due to poor economic conditions.

The OCC (1988) study further showed that an adverse economy was a significant factor in 35 percent of the failures. Even so, a depressed economic environment was the sole significant cause of failure in only 7 percent of the companies that were surveyed. The remaining failed companies that operated in depressed economies had significant internal problems as well. The evidence from healthy and rehabilitated companies also supported the OCC's theory that economic conditions are rarely the primary factor in determining a bank's condition

Studies on effect of financial distress on efficiency of a firm are very important because firm's efficiency or turnover ratio*s* measure how productively the firm is using its assets and financial distress affects the productive capacity significantly (Brealey et al, 2020**)**. The firm efficiency is measured in terms of its size, profitability and the number of assets it owns as well as the number of employees (Altman 1983). This variable indicates the firm’s viability and speed of turning over its assets within the year, which determines the firm’s financial position. The capital intensity of firm determines financial distresss through alleviating the degree of distress. This is because higher capital intensity implies a higher degree of fixed assets that could be used as collateral in case a firm experiences a FD condition (Charalambakis, Espenlaub & Garrett 2008). Therefore, it is only internal factors that can lead bigger firms such as Star Africa Corporation into financial distress, because the bigger the firm the less likely it will fall int financial distress.

Furthermore, financial distress can be caused by the firm’s inability to produce products to meet the demand in the market, that is, if a firm is incapacitated it will not be able to meet the demand of its products (Monark, 2018). Financial distress acting a momentous function in a firm’s efficiency through the influence of reducing the productive capacity of assets (Ridgemond, 2017). The more unproductive assets in the firm’s imply the less return on asset and the lower ratio leads for financial distress. Financial distress has devastating effects on a company because it leads firms to low performance of its productive asset and low efficiency (Ridgemond, 2017). Moreover, the increase in efficiency resulting from increase in profitability ratio increases the firm’s productivity, thus increasing debt service coverage. In addition to these effects, lower profitability ratios also grant a firm with near to the ground the probability of financial distress which is designate firms in the track of financial distress (Monark, 2018). Thus, for a multiplicity of rationales, FD dwindles firm’s efficiency. DSC augmentation perk up a firm’s efficiency and hence the incidence of FD is very negligible.

2.4.2 Fraud and financial distress

Fraud refers to falsifying the financial reports of company through manipulating the company’s budgets to cover money that was used for personal gains instead of covering the firm’s expenditure (Norm, 2014). Fraudulent activities make the company lose money and this money will be justified in the financial reports. The impact of fraud on firms is significant because the company will lose large amounts of money and in most cases, it will be realized when it is too late (Norm, 2018). Fraud effects on financial distress has two sides of the process of financial strain influence, either operating side which causes operating risk or financial side which causes financial risk (Shim and Siegel, 1998).

Furthermore, high fraudulent activities may facilitate financial distress on firms through inability to pay its debt and increasing insolvency and promoting bankruptcy. High fraud levels contribute to firm's financial distress by facilitating inability to meet the current financial obligation and deterioration of the company's cash flow. Ongara (2013) propound that corporate debt can affect investment by creating debt overhang on the company. Therefore, firm's leverage is a main factor that negatively impacts the level of financial distress (Andrade and Kaplan 2018). Fraudulent activities and falsely editing the financial statements increase the degree of firm's financial distress (Lee etal. 2010; Outecheva 2007). Financial distress is seen as an intermediate state between solvency and insolvency. A firm is distressed when it fails to meet interest payments or violates debt covenants with the suppliers (Purnanandam 2005).

However, as firm's leverage above a certain point, the firm's degree of financial distress increase and costs associated with leverage overshadow the benefits (Opler and Titman 1994). Furthermore, the increase in leverage resulting from increase in total debt to total asset ratio increases the firm's insolvency, thus decreasing the possibility of a firm to fall into financial distress. Thus, for a variety of reasons, leverage leads firms for FD. The reverse causation from financial distress to leverage is also very straightforward (Opler and Titman, 2014). Debt service coverage increment improves a firm's leverage and hence financial distress probability would be minimal.

2.5 Determinants of financial distress

2.5.0 Leverage determinant

Altman (1983) state that the appreciation of the total debt in the firm relative to total asset (TD/TA) increases leverage of the firm hence, there is a positive link between the increases of total debt to total assets and leverage is expected. That is, the appreciation of TD to TA ratio increases the leverage of the firms. The negative coefficient of TD to TA for the regression output implies that the increase of the total debt relative to total asset affects the firm's leverage. In reverse, the decrease of TD to TA helps the solvency of firms. This is in line with both theoretical reasoning in corporate finance and findings of previous empirical studies that were conducted by Pranow et al (2010).

2.5.1 Profitability determinant

According to Altmann (1983) the appreciation of the gross profit in the firm relative to total sales increases profitability hence, there is a positive link between the increases of gross profit to total sales and profitability is expected. In other words, the appreciation of gross profit to total sales ratio increases the profitability of the firms. The positive coefficient of gross profit to total sales implies that the increase of the gross profit to total sales affects the firm's profitability. Therefore, the increase of gross profit to total sales helps the profitability of firms (Pranow et al, 2010).

Profitability ratios showcase how effective a company is in generating profit given sales and its capital assets and measure a company's ability to generate revenue over expenses (Chang et al, 2006). The research conducted on the financially distressed firm suggests that taking actions of adjusting the business to increase profitability. Campbell (2015) carried out a research on the determinants of corporate failure and the pricing of financially distressed stocks and shows lower profitability will lead to high level of financial distress that increases the chance of firms to go bankrupt. Therefore, there is a direct relationship between financial distress and the profitability of a company.

2.5.2 Firm size determinant

Small firms are likely to fall into financial distress compared to bigger firms because small firms have very limited resources at their disposal and they poor market experience (Honjo, 2010). Firm has been regarded as the most important financial distress determinant and hence there is a positive relationship between the firm's size and its likelihood to fall into financial distress. A study carried out by Mihov (2003) revealed that the firm's size is negatively related to the probability of a firm going bankrupt, but there are also internal factors that make bigger corporations to fall into financial distress. Mihov (2003) revealed that large corporations are more likely to survive external shocks but internal mismanagement of the firm can make it go underground. Therefore, large corporations can fall into financial distress if they are poorly managed (Mihov, 2003).

2.5.3 Liquidity determinant

Liquidity defines the firm's ability to meet and sustain short term financial obligations which mature overtime and this has been selected as an important financial distress determinant because it is a clear indication of the current financial status of the organization. Nahar (2006) showed that the increase in the liquidity leads to the decrease in financial distress and the opposite is true. This was also supported by Thim et al (2011) who state that there is a positive link between the liquidity of the firm and financial distress because if a firm is unable to meet short term financial obligations it will also fail to meet its long-term financial obligations. Gatheta (2016) disputed this fact by suggesting that a firm failing to cater for its present financial needs is likely to cater for its future obligations because the business environment is unpredictable and the firm may eventually make money through increased sales, payment from its debtors of from new investment. Therefore, there are many possibilities for a firm to quickly recover and not fall into financial distress (Gatheta, 2016).

The capability of an asset to be quickly changed into cash at minimal cost is what is termed as a firm's liquidity. (Brealey et.al., 2000). Andualem (2016) opines that entities with high liquidity levels are less likely to experience financial distress. The liquidity of a firm is an important determinant of financial distress. It is believed that an entity struggling financially, will take various salvation actions, such as improving the assets liquidity through business retrenchment (Change, 2006). According to the research by the OCC (1988), manifestations of liquidity related problems included non-existent or poorly followed asset and liability management policies, undue reliance on volatile liabilities and inadequate liquid assets.

2.5.4 Capital adequacy

The capital adequacy ratio has been crafted to ensure and measure how well firms can absorb losses before they can become insolvent and normally this relies on the size of the firm (Dang, 2011). In this case, firms with higher capital adequacy ratio will be able to withstand a few losses before they go bankrupt as compared with firms with lower capital adequacy, they will not be able to withstand the greater level of unexpected losses. The capital adequacy ratio shows the internal strength of the institution to withstand losses during the crisis because they are not resilient (Dang, 2011). Financial institution's capital creates liquidity since the deposits are most fragile and prone to run, therefore, the greater capital reduces the chance of distress (Jones, 2017).

Sangmi and Nazir (2010) in their study findings revealed that capital adequacy ratio had a positive influence on the earnings and profitability of banks. Shahatit (2011) differed with Suka (2012) and Sangmi and Nazir (2010) in the research on the effects of applying capital adequacy standard by commercial banks on their profitability. Study findings revealed that capital adequacy had little influence on profitability of commercial banks in Jordan. Suka

(2012) who agreed with Sangmi and Nazir (2010) studied the influence of capital adequacy on the financial performance of commercial banks quoted at the NSE. The study showed that capital adequacy had an influence on the profitability of the banks and further that, capital adequacy contributes positively to the profitability of commercial bank

2.5.5 Company age

The age of the company is one of the most influential characteristics in organizational studies and is an important determinant of the financial performance of the company (Beaver, 2016). New firms that have recently started operations are not yet financially stable and their focus is on improving and maintaining financial healthiness (Beaver, 2016). Older companies tend to be more financially stable and healthier due to their long tradition and the fact that they could build up a good reputation (Beaver, 2016). Findings by Freixas (2019) indicated that new firms are likely to face loss ratios because if a lesser amount is available for expense recovery their leads to a greater risk of insolvency.

2.5.6 Earnings growth

Revenue is the primary source of revenue for most companies, this revenue is generated through sales, investment, disposal of idle company assets (Yosha, 2015). Therefore, the growth should predict future revenue ad earnings growth from the generated revenue. The empirical evidence show that earnings growth and financial distress have a negative relationship. A high ratio indicates that an inefficient use of working capital reduces the firm’s amount of current assets, hence current assets have a positive relationship with the financial distress position of the company (Yosha, 2015).

According to Prasad & Ravinder (2012), earnings quality is a key indicator on the company’s capacity to earn consistently. Aspal and Sanjeev (2014) acknowledge that high earnings quality is a reliable measure of future operating status and ought to mirror the organization’s current operating performance. Earnings and profitability are perceived as the most well-thought-out measures in an entity’s financial statements (Aspal & Sanjeev, 2014).

2.6 Impact of financial distress

The Financial distress in the firm adversely affects the performance of the firm and results in lower debt service ratio (Altiman, 1983). It can be said that the impact of financial distress on debt service coverage is negative and the early stage of financial distress could be revenue reduction. The profitability of the firm is decreasing and the liquidity ratio of the firms decline due to high leverage of the firm. For that matter, one can even question the role of financial distress on the performance of a firm. Financial distress may have a negative effect on the debt service coverage of a firm if they give rise to high leverage, low liquidity, low efficiency and low profitability (Altiman, 2018). As long as liquidity is not maintained, many highly leveraged firms are not able to renegotiate their debt agreement if they are breached contract; rather they go for reorganization, acquisition, merger or liquidation.

The liquidity, profitability, efficiency and leverage are an important indicator of any firm's performance of debt service coverage and it plays several roles in financial policy decision (Altiman, 2018). First, its significance stems from the fact that the components, reflecting the income-debt ratio, are closely related to the status of the capital structure and financial decision which are key factors of financial stability (Kirmi, 2017). Second, a firm's debt service coverage includes the manipulation of its liquidity, profitability, efficiency and leverage, reflecting the total debt with in the firm. Third, since the DSC ratio determines a firm's solvency.

2.7 Preliminary Literature Review

The literature reviewed for the research understudy revealed that financial distress is common in firms operating in developing nations (Zamore et l., 2018). In a study carried out in Nigeria, it was revealed that financial distress is mainly caused by macroeconomic factors such as inflation and economic instability (Muchiri et al., 2016). Kirmi (2017) agrees that external factors largely contribute to the downfall of a corporation as compared to internal factors which can be directly resolved through changing management and organizational culture. Nyamita (2014) argue an organization with already existing weak performance is easily swayed off balance by the external operating environment hence these firms easily fall into financial distress. Therefore, these resear+chers mainly focused on macroeconomic factors as the main cause of financial distress for companied listed on the stock exchange. Most of the researches were carried out in other countries beyond Zimbabwe with different economic performance, hence this provides a gap in this area for researchers to study on.

However, a study carried out by Fang (2016) indicated that financial distress is a clear depiction of poor corporate governance. Hussan (2016) concurs with this notion, for example, heavy debt increases the chances of business failure and poor financial status of the organization. Authors like Shibu (2018) pointed out that internal factors such as rigid organizational structure lead to underperformance of the organization. Waswa et al (2018) also agrees that lack of proper budgeting leads to continuous borrowing and this chases away shareholders and prohibits financial performance as organizations will be burdened with high interest expenses. Therefore, failure to meet these financial obligations lead to financial distress (Waswa et al., 2016). The researchers focused on the banking sector of the economy and this leaves room for research to be conducted in the manufacturing sector in Zimbabwe.

Financial distress has devastating effects on the performance of a company and if not controlled it can lead to bankruptcy (Boyer and Marim, 2013). The bankruptcy of the firm negatively affects all stakeholders of the firm and it can lead to retrenchment of employees because a firm's aim will be to survive (Boyer and Marim, 2013). Another challenge caused by financial distress is that it leads to very low investor confidence and low market value of the firm. According to Chen et al (2014) The ripple effect of financial distress can be experienced by managers, shareholders, creditors and the government, as a result financial distress makes all stakeholders to lose confidence in the firm. Therefore, analysing the effects of financial distress is important in order to lay the foundation on why financial distress prediction system is crucial for any organisation as it helps facilitate the reduction of the dire consequences of financial distress before it actually happens.

However, a study carried out in the banking sector by Fang (2016) indicated that financial distress is a clear depiction of poor corporate governance. Hussan (2016) concurs with this notion, for example, heavy debt increases the chances of business failure and poor financial status of the organization. Authors like Shibu (2018) pointed out that internal factors such as rigid organizational structure lead to underperformance of the organization. Waswa et al (2018) also agrees that lack of proper budgeting leads to continuous borrowing and this chases away investors and prohibits financial performance as organizations will be burdened with high interest expenses. Therefore, failure to meet these financial obligations lead to financial distress (Waswaet al., 2016). The researchers focused on the banking sector of the economy and this leaves room for research to be conducted in the manufacturing sector in Zimbabwe.

Financial distress threatens the survival of companies regardless of the environment that they operate in (Almeida et al., 2015). Financial risk makes it difficult for companies to continue operating and as a result a firm will be forced to close down in extreme cases (Almeida et al., 2015). According to Mwangi et al (2014) financial distress predictions is important because it will inform the management of the company on investment choices to make and the risks that are associated with the investment of that particular project or asset. A study carried out in South Africa by Baimwera and Muriuki (2014) on a firm called Wabona revealed that financial risk and financial distress are the major causes of corporate failure. The study showed that these risks are mainly associated with the exchange rate system and firms that import raw materials are affected by the fluctuating exchange rates. Baimwera and Muriuki (2014) conclude that financial distress is caused by changes in the stock market which affect companies that are listed on the stock exchange. According to the study, the changes in the stock market affect the performance of companies and this causes uncertainty which slows down economic growth.

In a different study carried out by Koechet (2018) on an Egyptian firm Ousta, the research findings revealed that financial distress is mainly caused by cash flow problems in an organization. Koechet (2018) states that credit risks of Ousta and liquidity crisis contributed towards the cash crunch in the organization. The study concludes that poor corporate governance erodes investor confidence in the company. A study carried out on a Nigerian firm also revealed that high interest rates also make it difficult for a firm to meet its financial obligations hence financial distress is encountered. This shows that African companies have also suffered from financial distress and therefore, there is need for a research to analyse the importance of financial distress predictions and how it can assist firms to forecast the future financial position of the firm.

African countries are more affected by the trade effect of financial distress and the crises that the relative underdevelopment of financial systems in sub-Saharan African countries, in particular the strong reliance on trade credit may make them more vulnerable to the commotion of trade finance that comes with a banking and financial crisis (Berman and Martin, 2011). However, a substantial number of corporations in Africa have failed, mainly because of non-performing loans, lending at high interest rates to borrowers in high risk segments of the credit market. The extent of imprudent management which showed deficiencies in company regulation, supervision and poor loan quality which has its roots in the informational problems which afflict financial markets, and which are at their most acute in developing countries, in particular problems of moral hazard and undesirable selection (Brownbridge, 1998). In addition, Kupakuwana, (2012) cited that, African companies and financial institutions collapsed mainly due to an overabundance of deficiencies, corruption, corporate governance and macroeconomic climate. The systematic character of financial risks precisely is the normative reason why the government is concerned with promoting the well-being of companies such as Star Africa Corporation because they contribute to not the economy but the living standards of the employees and the communities that they operate in.

In South Africa liquidity and poor management have been the prevalent reasons for bank failure (Okeahalam, 1998). The failure of Alpha Bank in 1990 as a result of high-level fraud was the first of several bank failures in South Africa during the 1990s. Even if the Reserve Bank injected R150 million into the bank primarily to protect depositors it was not sufficient to resuscitate the bank and after four years of curatorship it was placed in final liquidation in 1994. In the second quarter of 1991 Cape Investment Bank (CIB) failed as a result of liquidity problems emanating from fraud. It failed to disclose the significant number of non-performing assets in its statement of financial position. The Reserve Bank provided R5 million to compensate depositors. Again in 1991 Pretoria Bank failed after it had been poorly managed.

2.8 Chapter summary

This chapter outlined the relevant literature that is available on this area of study. The researcher also made reference to the global phenomenon of financial distress using existing case studies. Many researchers revealed that financial distress is a phenomenon that has recently gained popularity among corporates and researcher due to the increasing number of firms that have fallen into the peril of distress especially in developing nations such as Zimbabwe. The research made use of financial distress theory. The chapter also explored the nature of the Zimbabwe Stock Exchange, the importance of financial distress predictions as well as the financial distress determinants. There is limited research on the importance of financial distress predictions of firms that are listed on the Zimbabwe Stock Exchange, hence this research will cover the gap by focusing on Star Africa Corporation as a case study. The next chapter will focus on data presentation, analysis and discussion.

CHAPTER 3
RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains the research design that was used, the research approach that was adopted in this research and outlines the research design to be used in this research. The research instruments to be used in the research will also be explored as well as the sources of data that were reviewed. This chapter also captures the validity and reliability of the research and the ethical considerations.

3.1 Research approach

Research approach refers to a plan of action that is used to carry out a research in order to obtain information relevant to the study (Stake, 1995). Research approach refers to the different methods that will be used to collect data from the respondents and this includes the qualitative and quantitative research approaches (Stake, 1995). For the purpose of his research, a mixed research approach will be used in order to quantify the impact of financial distress predictions and analyse the impact of the financial distress predictions. The research under study will use a mixed approach which involves the use of both qualitative and quantitative research approach because this will validate the research findings. According to Maxwell (2012) qualitative research approach fall under the interpretative research paradigm and it mainly focuses on capturing the lived experiences of people, that is, analysing the impact of financial distress predictions on companies that are listed on the ZSE. Khotari (2006) explains that qualitative research approach is descriptive in nature and this allows the researcher to gain a deeper insight concerning a particular phenomenon.

Utilizing both qualitative and quantitative research approach helped the researcher to understand the social phenomena. In this case, the mixed approach helped the researcher to analyse the patterns of financial distress on companies that are listed on the stock exchange and justify the importance of financial distress predictions.

Qualitative research approach allowed the research to capture different views, opinions from different participants in the study hence it reinforces the validity of the research findings (Singh, 2018). The researcher made use of qualitative research because it enabled deeper throbbing in answering of the research objectives in line with the research and acquiring first-hand information that is not found anywhere else. The qualitative research approach involved research techniques such as observation, interview with open-ended questions which used direct quotations. Qualitative research approach laid the foundation for researcher to test and verify hypotheses and the ideas generated can be converted into meaningful results (Singh, 2018).

Qualitative research approach aimed to analyse the uniqueness of a phenomenon and this included capturing respondents in their natural setting through comparing the research results with already existing body of literature (Tracy, 2013). The main purpose of the research was to analyse the impact of financial distress predictions for companies that are listed on the stock exchange in Zimbabwe. Phenomenological approach has been used for the purpose of this research and because it allowed the researcher to collect data from respondents in the organization through interviews and other techniques that have been employed.

Quantitative research approach involved the collection and analysis of numerical data. A survey is usually used as a data collection tool in order to test and verify hypotheses (Tracy, 2013). Quantitative research approach is dependent on mathematics and statistics techniques, that is, the research method focuses on quantifying the variables of the research under study (Tracy, 2013).

3.2 Research design

Research design explains the overall plans that were used to carry out a research, it is a detailed description of how the study was carried out in order to obtain the necessary information (Maxwell, 2012). A research design is required in order to ensure the efficient and effective way of collecting data, research design ensures that quality information is obtained at a very low cost (Maxwell, 2012). The research under study is going to be carried out at Star Africa Corporation. A case study method has been used for thus research because it ensures that research is carried out in a particular element instead of carrying out the study on the whole population (Maxwell, 2015). Focusing on one organization is more effective because it allows throbbing instead of seeking generalizations from companies in the whole industry.

A case study research design was selected in this research because it allows the researcher to clearly see the relationship that exists between a particular phenomenon, context and the people (Maxwell, 2015). In this case, the case study will help the researcher to see the relationship between financial distress predictions and the companies that are listed on the

Zimbabwe Stock Exchange. A case study has also been selected as a research design for this research because it is flexible and allows adjustments to be made to ensure that the research questions are answered (Tracy, 2013).

3.3 Target population

Target population refers to individual or group of individuals who possess the characteristics that are of interest to the researcher (Kirby, 1997). Target population refers to the entire group of objects or subjects through which the research is supposed to be carried out (Cox, 2013). Target population allows inferences to be made about a particular phenomenon and this population can either confirm or discard the existence of such a phenomenon (Cox, 2013). For the purpose of this research, employees at Star Africa Corporation were the target population for this research. Star Africa Corporation had a total of 503 employees and it is only 50 employees working in the Accounting and Financial Department of the organization were selected to participate in the study. Key informants from the Securities and Exchange Commission of Zimbabwe (SECZ) because the financial regulatory body is responsible for regulating the Zimbabwean capital market.

3.4 Sampling procedure

3.4.0 Sample size

A sample refers to a section or a subgroup of the total population (Yin, 2004). A sample size is selected in research because it makes it easier to analyse a smaller group than the whole population (Yin, 2004). A sample size is crucial because it allows reliable and accurate data, in this case, if the sample size is too large the data collected becomes difficult to analyse and it is also time consuming to survey a large sample size (Yin, 2004). On the other hand, if the sample size is too small, the data becomes unreliable and it is difficult for the researcher to draw conclusions (Yin, 2004). For the purpose of this research, the research questions determined the appropriate sample size to be selected at Star Africa Corporation.

3.4.1 Simple random sampling

According to McBurney and White (2009) simple random sampling is a form of probability sampling in which a subset is selected randomly and they all have the same probability. In this case, all employees in the Finance and Accounting Department at Star Africa Corporation all had an equal opportunity of getting selected to participate in the study. This method was selected for the study because all participants are treated equally and it was very easy to implement (Hatch, 2002). Another advantage of using simple random sampling is that there is no bias and it does not require much knowledge or expertise to conduct. For the purpose of this research, a lottery method was used and an attendance register for the employees in the Finance and Accounting Department was used, a number was be assigned to all the available employees and then numbers were selected randomly and employees with corresponding numbers participated in the study.

3.4.2 Deliberative sampling

Deliberative sampling is a form of non-probability sampling because it allows the researcher to select participants based on their knowledge of a particular phenomenon (Cohen et al., 2017). For the purpose of the research, key informants from the Securities and Exchange Commission of Zimbabwe were selected to participate in this research because they possess knowledge about the regulations of the Zimbabwean capital market. Furthermore, the Finance and Accounting Managers at Star Africa Corporation were selected to participate in the study because they understand the impact of financial distress predictions and how this system could benefit the organization.

Deliberative sampling was used as a sampling method because it allowed the researcher to get more information about future decisions that need to be made regarding a particular phenomenon (Cox, 2013). The information obtained through deliberative sampling is reliable because it allowed the researcher to capture symbolic views which can not be obtained through quantitative research approach (Cox, 2013). Moreover, deliberative sampling is subjective which means that different views can be obtained over the same issue therefore, organizational culture, values beliefs and affective views can be obtained (Cox, 2013).

Table 1 Statistical description of respondents

Description	**Population**
Departmental Managers	2
Finance and Accounting employees	15
Auditing employees	15

Key informants from SECZ	2
Total	**34**

[Source: primary data]

A total of 32 Finance and Accounting employees were selected to participate in the study and this constitutes 64% of the employees working in the Finance and Accounting department.

3.5 Data collection methods

Data collection methods refers to the strategies that will be used to obtain data relevant for the study (Bovd, 2010). Data collection methods can either be primary sources of data which involves collecting raw data from the respondents through a survey or secondary sources of data which involves reviewing existing literature about a particular phenomenon. In this research, financial statements, organizational records, journals, government sources and other relevant sources of information by scholars of corpus view on the impact of financial distress predictions were reviewed.

3.5.0 Primary sources of data

Primary data refers to first hand information that is obtained through field study or online surveys (Gwimbi, 2000). The research under study obtained raw data from participants through interviews and questionnaires.

3.5.1 Interviews

One on one interviews were conducted to effectively obtain information about financial distress as a phenomenon and how it is understood at Star Africa Corporation. The interviews were conducted by the researcher and this helped to capture the subjective data of how the organization went into financial distress, how it recovered as well the importance financial distress predictions of companies that are listed on the Zimbabwe Stock Exchange. The researcher asked predetermined questions to the participants to ask specific questions in line with the impact of financial distress predictions. However, according to Gall (2018), the major drawback of this method is that participants were not comfortable sharing honest answers about the financial status of their organization. In order to resolve this, the researcher assured the participants that the information obtained is solely for academic purposes as well as emphasizing on the research ethics.

3.5.2 Interview guide

According to Babbie (2011) interview guide refers to a list of questions that are asked to the respondents and they give answers. An interview guide is comprised of a list of predetermined sequential questions that are interrelated in nature and follow up questions are also drafted on the interview guise (Babbie, 2011).

3.5.3 Questionnaire

A questionnaire is a research instrument that is used to obtain data from respondents (Hopkins, 2018). The researcher thus, used self- administered questionnaires to collect primary data. Participants' responses to questionnaires were used to compile the data. Both open-ended and closed-ended questions were used in the study. Given that respondents were given the freedom to express their thoughts and experiences, open-ended questions improved the ability to acquire detailed and rich information about the impact of financial distress predictions. Hopkins (2018) affirms that questionnaire is a practical way to gather data since the respondents providing data are part of the obtaining situation.

A questionnaire was employed due of its benefits which include that it is very economical. One benefit is how simple it was to analyze complex information (Weakley, 2019). For large samples, it worked incredibly well and was reasonably priced. Unfortunately, there were a few issues that came up when using surveys (Weakley, 2019). Furthermore, the researcher gave the respondents questionnaires and agreed on the date and time that the questionnaires would be returned. The responders did so at their own pace and free time, which allowed all questions to be answered.

3.6 Validity and reliability

Validity is about verifying the research instruments that were used in research and reliability is concerned with the truthfulness of the research findings (Punch, 2010). Validity and reliability are important in research because it measures the accuracy of the research findings and that should the same research be replicated by another researcher, the same research findings should be obtained (Kimberlin and Winterstein, 2008).

The purpose of validity and reliability is to reduce error and room for bias in any research (Kimberlin and Winterstein, 2008). In order to ensure validity and reliability, the researcher conducted a pilot study to measure the effectiveness of the research instruments, five questionnaires were distributed to random employees at Star Africa Corporation and two interview sessions were conducted with the Departmental Managers. A few adjustments were made to the questionnaires so that they could be more effective in answering the research questions. According to Punch (2010) pilot study is important in research because it corrects the errors of the research instruments before an actual study is conducted.

3.7 Data presentation and analysis

This refers to a process of presenting the research findings though visual aids and this can be in form of tables, pie charts, graphs, histogram and pictures (Gall, 2017). Data presentation breaks down the raw information into a format that makes it easier to read and draw conclusions, therefore this includes organizing the data (Gall, 2017). Data obtained from the questionnaires was presented in a graphical format while data obtained from interviews was in textual format.

Data analysis involves attaching meaning to the raw data obtained during primary research (Melville, 2004). Data analysis aims to interpret the data through making sense of the figures or words from the respondents. Data analysis can be done through comparing research findings with the existing literature, using direct quotations from respondents (verbatim) in order to communicate meaning of the research findings (Melville, 2004). In this research, data obtained from the questionnaires was analysed using the Statistical Package for Social Sciences (SPSS) because of its accuracy in presenting different variables. Data from interviews was analysed manually in order to draw conclusions.

3.8 Ethical considerations

In research ethical considerations are a set of guidelines that guide the conduct of the research methodology (Walliman, 2010). The ethical considerations include: informed consent, voluntary participation and confidentiality. Bryman (2012) state that ethical considerations are important because they protect the research participants from harmful practices that could hurt them physically or emotionally. For the purpose of this research, respondents were told that they could discontinue from the research anytime they were no longer comfortable. Therefore, no respondents were coerced or forced to participate in the research against their will.

3.9 Chapter summary

This chapter analysed the research methodology that has been used for this research and a mixed approach of both qualitative and quantitative research have been used in order to collect both numerical data and description on the importance of financial distress predictions on Star Africa Corporation. A case study research design has been used because of its benefits which include that it gives a detailed analysis of a single element instead of generalizing research findings. Interview and questionnaires have been selected as the research instruments to collect primary data and secondary sources of data that were reviewed include the financial statement of the company. Validity ad reliability were ensured by collecting first hand information from all the selected respondents. Data presentation and analysis will focus on presenting the research findings through pie charts, graphs and tables. Ethical considerations that were adopted for the purpose of this research include informed consent, voluntary participation and privacy.

CHAPTER 4

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.0 Introduction

This chapter presents the results that were obtained from the questionnaires that were distributed and the interviews that were conducted in line with the impact of financial distress predictions on companies listed on the Zimbabwe Stock Exchange. The results are presented in the form of tables, pie charts and graphs, data obtained from the interviews is presented in verbatim form. The results were analysed in line with the literature review in order to make inferences and draw conclusions.

4.1 Questionnaire Response Rate

Table 2 : Questionnaire Response Rate

Participants	Distributed	Returned	Percentage
Accounting & Financial Employees	14	14	100%
Auditing Employees	14	14	100%
Accounting & Financial Managers	2	14	100%
Total	**30**	**30**	**100%**

Table 2 shows the questionnaire response rate and it shows that there was 100% response rate as all the distributed questionnaires were returned. The high response rate can be attributed to the researcher’s constant follow up. All the questionnaires that were returned were all answered and therefore suitable for use.

4.2 Section A: Demographic information of respondents

4.2.1 Gender profile of respondents

The research study sought to ascertain the gender profile of respondents and the results obtained are presented in the figure below:

Figure 1: Gender profile

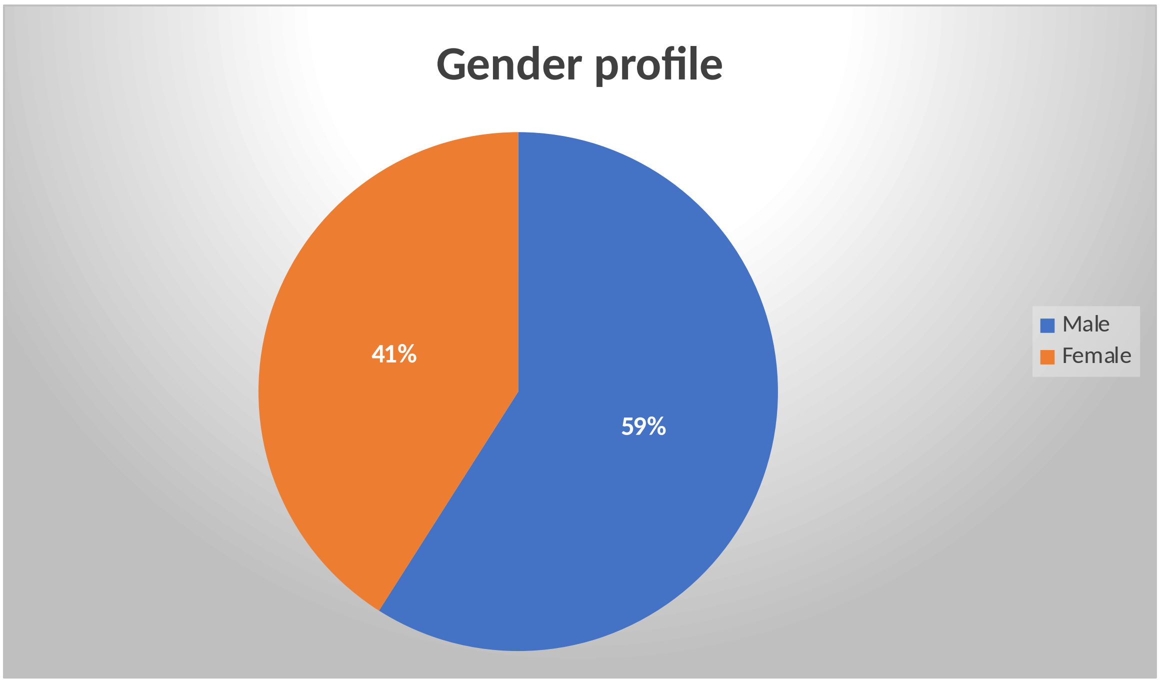


Fig 1 illustrates the distribution of respondents according to gender, 41% of the respondents were female while 59% were male. This shows that there are more male employees a Star Africa Corporation than women. The research findings are a clear indication of gender disparity in the form workplace and this is supported by Musuna (2018) who state that women in Zimbabwe are still lagging behind in terms of occupying formal jobs in most companies.

4.2.2 Age profile of respondents

The study sought to ascertain the age profile of respondents and the results obtained are illustrated in the figure below:

Figure 2: Age profile of respondents

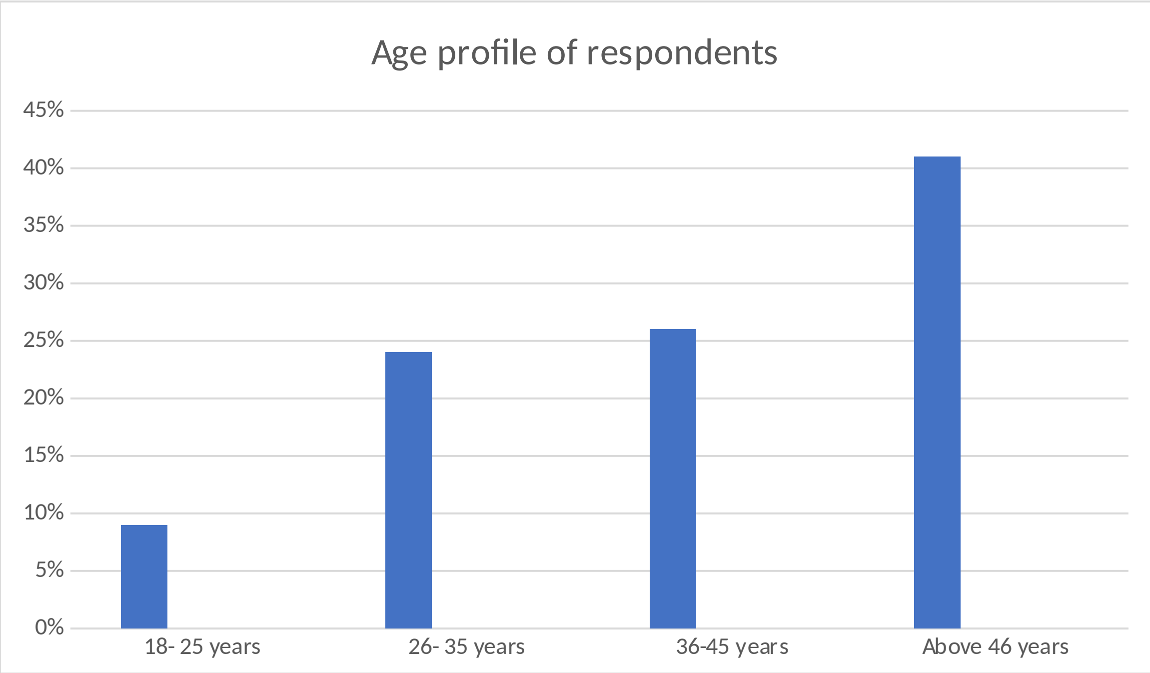
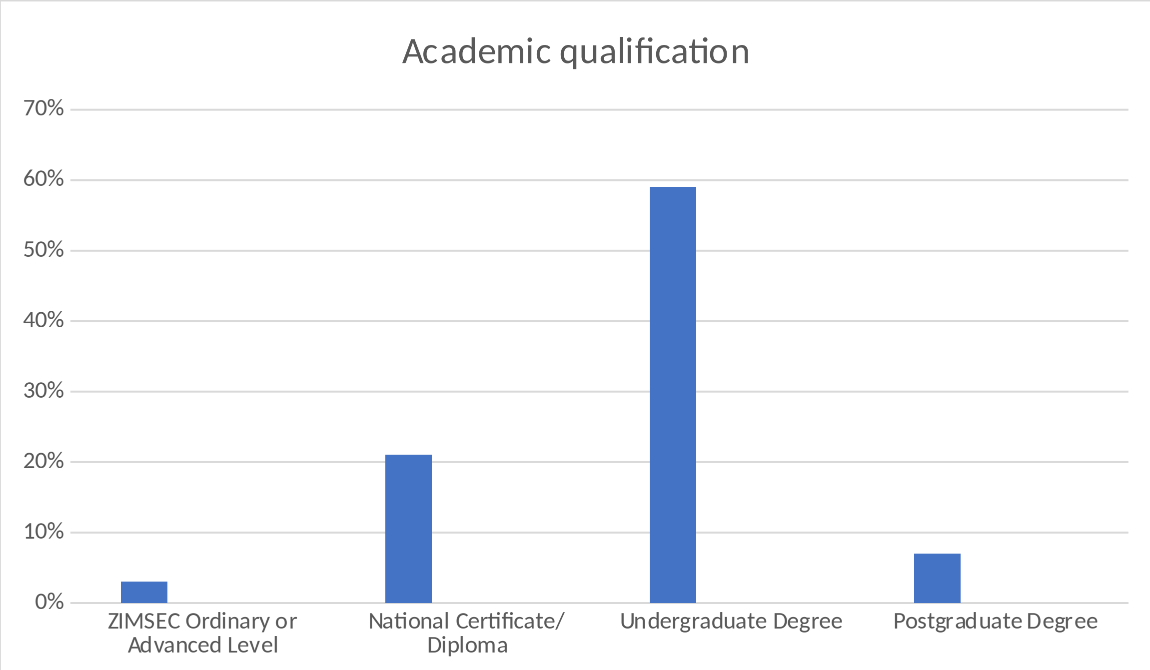


Fig 2 shows that majority of the employees are above 46 years as shown by 41%, 26% of the employees are between 36 and 45 years and 24% of the respondents were between 26 and 35 years. 9% of the respondents were between 18 and 25 years. The age of respondents was an important demographic variable in the study because it helps to attach different opinions of respondents based on their age. Furthermore, it helps in showing the level of knowledge about a certain phenomenon in the organization such as the impact of financial distress predictions.

4.2.3 Academic qualifications of respondents

The study sought to ascertain the academic qualifications of the respondents and the results obtained are illustrated below:

Figure 3 : Academic qualification



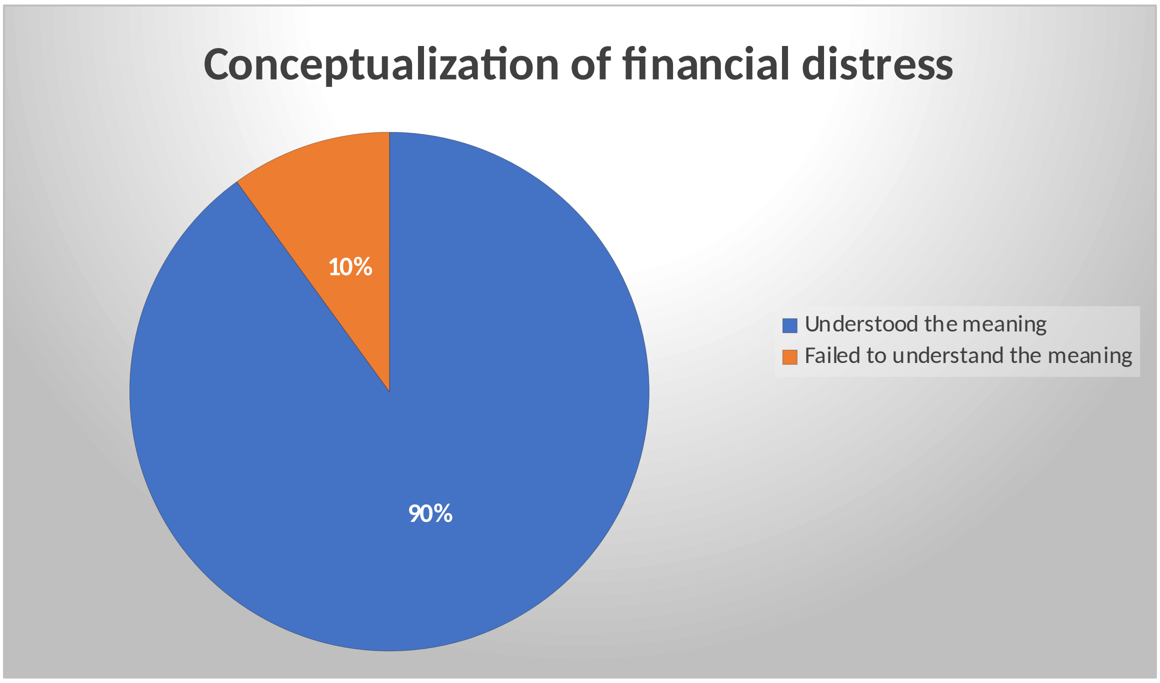
The research findings revealed that 59% of the respondents have obtained an undergraduate degree, 21% have acquired a National Certificate or Diploma. 17% of the respondents have a postgraduate degree and only 3% have ZIMSEC Ordinary or Advanced level. The research findings concur with Musuna (2018) who state that majority of the adult population in Zimbabwe are educated as they are able to read and write, therefore, they have a basic understanding of most concepts.

4.3 Section B: Financial distress

4.3.1 Conceptualization of financial distress

The study sought to ascertain if the respondents understood the concept of financial distress at Star Africa Corporation and the research results are illustrated below:

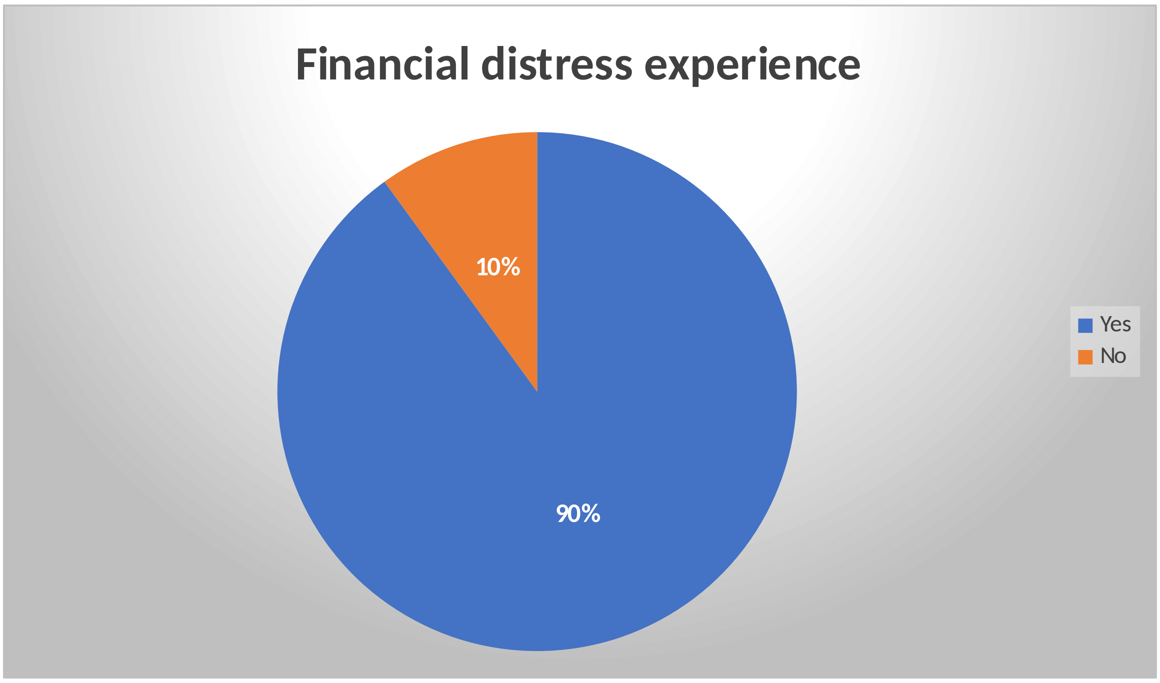
Figure 4 : Conceptualization of financial distress



The research findings revealed that 90% of the respondents understood the concept of financial distress while 10% said that they were not familiar with it. The research findings concur with Karels and Plakash (2018) under the Financial Distress theory who state that the concept of financial distress has gained prominence because many companies operating in developing countries are at the risk of falling into financial distress. According to Karels and Plakash (2018) financial distress there is no company that is immune to financial distress because of the dynamic environment that companies operate in.

4.3.2 Financial distress experience of Star Africa Corporation

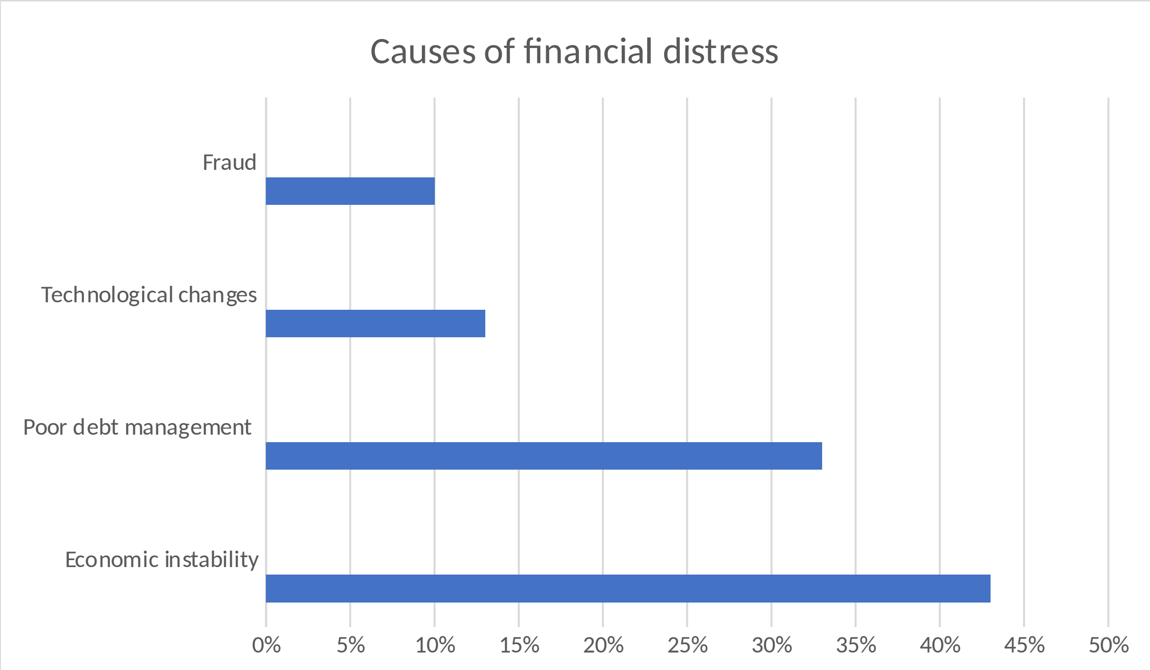
Figure 5: Financial distress experience



The study sought to ascertain the financial distress experience of Star Africa Corporation and the research findings revealed that 90% of the respondents agreed that the organization at some point experienced financial distress. On the other hand, 10% of the respondents disagreed this can be attributed to the fact that some of the respondents were new employees and therefore, they were not aware of the history of the organization. The research findings revealed that the company has been experiencing financial distress since 2013 because of the withdrawal of its major shareholder, shocks from the macroeconomic environment especially the auction rate system has drastically affected the operations of the organization. The research findings concur with Mandibaya (2022) and Mabika (2022) who reported that Star Africa Corporation has been experiencing financial distress since 2014 and the company has been failing to meet its financial obligations since then. In 2015, the situation escalated and the company lost more that $100 million dollars because of fluctuating prices and high cost of production (Mandibaya, 2022; Mabika, 2022). Therefore, this confirms the financial distress experience of Star Africa Corporation.

4.3.3 Causes of financial distress at Star Africa Corporation

Figure 6 : Causes of financial distress



The research findings revealed that 43% which was majority of the respondents revealed that economic instability was the major cause of financial distress at Star Africa Corporation. The macroeconomic environment has been accompanied by many shocks ranging from hyperinflation, fluctuating foreign exchange rates and harsh monetary policies. The research findings are in tandem with the African Report (2014) which postulate that Zimbabwe is a difficult country for businesses to operate in because of the hostile economic environment which is a force working against the successful operation of companies.

The figure above illustrates that 33% of the respondents indicated that poor debt management contributed to the financial distress of Star Africa Corporation. In this case, the company had a heavy financial burden as it was failing to settle its debts with suppliers and employees who had been working for several months without getting paid. The research findings are supported by the financial reports of the company which showed that the company had $19, 7 million debt that the company was failing to pay (Star Africa Financial Report, 2019).

The results obtained from the research revealed that 13% of the respondents attributed the financial distress to technological changes. In this case, Star Africa Corporation was failing to adapt to the changes in technology and therefore, upgrading the company system proved to be a challenge. The figure above shows that 10% of the respondents revealed that fraud was the cause of financial distress. The research findings are supported by Waswa et al (2018) and

Hassan (2016) who state that financial distress is clear depiction of poor corporate governance and lack of adequate financial management in the organization.

4.3.4 Star Africa's recovery from financial distress

Table 3 : Financial distress recovery measures (n=30)

Financial distress recovery measures	**Frequency**	**Total**
Cost mitigation measures	15	50%
Improvement in the production of sugar	9	30%
Disposal of the company's assets	3	10%
Acquisition of the company	3	10%
Total	**30**	**100%**

Cost mitigation measures

The study sought to analyse the measures that were implemented by Star Africa Corporation in a bid to recover from financial distress and cost mitigation measures were implemented. The research findings revealed that 50% of the respondents indicated that cost mitigation measures were implemented as a desperate measure for Star Africa Corporation to recover from financial distress. The research findings revealed that this included retrenchment of employees and other staff members, temporarily closing down other sugar refinery plants in order to cut down production and overhead costs. The research findings concur with Mubika (2019) who states that companies that are financially distressed should downsize operations and retrench some employees as an urgent measure to survive.

Improvement in the production of sugar

The research findings also revealed that 30% of the respondents highlighted that improvement in the production of sugar was done in an effort to reduce production costs and maximize volume of units produced in order to stay in business. The results revealed that the company upgraded the Harare sugar refinery plant to its maximum capacity to produce more units to meet demand and reducing the price of the sugar products in order to make quick returns. The respondents revealed that this was a successful solution as the company was able to stay in business at the same time gaining a competitive advantage over its competitors. This was done in an effort to settle the company's debts as well as to recapitalize the company.

Disposal of the company's assets

Table 4.3 illustrates that 10% of the respondents indicated that disposal of the company's assets was one of the measures to recover from financial distress. The research study also revealed that the company disposed and liquidated some of its assets in order to pay off its debts. The respondents answered that the company disposed its transport company and its stake at Tongaat Hulett branch in Botswana as part of the agreement with creditors and lenders to pay off the debts in six months.

Acquisition of the company

The research findings also revealed that 10% of the respondents indicated that more than half of the stake of the company was acquired by a private equity firm called Takura in a bid to assist Star Africa Corporation to stay profitable in business.

Other recovery measures for companies that are financially distressed

State intervention

The interviews conducted revealed that there is a possibility for state intervention in order to strengthen the financial capacity of a firm.

Interviewee 1: *"The SECZ in collaboration with other financial regulatory bodies assist companies that are financially distressed through different interventions. Such interventions include tax reduction, help with capital inflow to the company. This helps the company to stay in business and recover from its losses."*

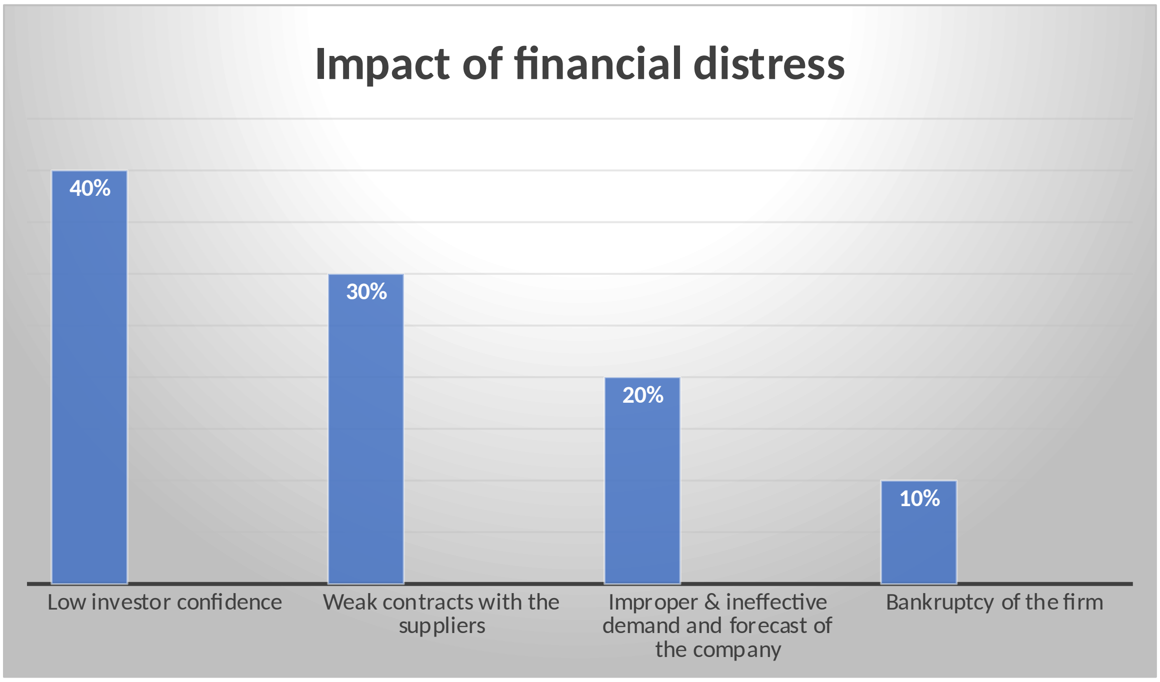
Interviewee 2: "*State cash flow support is offered to companies that are financially distressed. For instance, cheap loans are given to companies in order to pay off other debts, purchase raw materials and pay off employees. The SECZ regulates the Zimbabwe Stock Exchange, therefore, if any company is struggling financially, the SECZ ensures that the company receives enough support.*"

The above quotations illustrate other measures that are implemented to assist companies that have fallen into financial distress. The measures mentioned by the key informants indicate that the measures are highly effective because they increase the window of opportunity for a company to stay in business and explore different solutions to solve the financial problem. The research findings are in line with the African Report (2014) which state that firms that are financially distressed if they receive support and assistance from their government, they will be able to survive as was the case with Star Africa Corporation.

4.4 The Impact of financial distress

The study sought to ascertain the impact of financial distress on Star Africa Corporation ad the research results are illustrated in the figure below.

Figure 7 Impact of financial distress



The research findings revealed that 40% of the respondents indicated that financial distress leads to low investor confidence. In this case, financial reports are used to attract new investors on the stock market and inform existing investors about the financial status of the company, therefor, if a firm is financially distressed investors will withdraw due to fear of losing their money. The research findings support Mubika (2022) who state that Star Africa Corporation had been temporarily suspended from the Zimbabwe stock market and all stakeholders including investors were asked to give the company some time to figure a way forward.

According to figure 7. 30% of the respondents revealed that financial distress leads to weak contracts with suppliers because the company was failing to pay the suppliers on time and this made it difficult for suppliers to remain committed. The research findings also revealed that Star Africa Corporation was depending on a single supplier for raw materials because the company was sinking into debts and therefore unable to settle its creditors. The research findings are supported by Benmelech et al (2018) who state that a financially distressed firm struggles to pay its suppliers on time and as a result all the suppliers withdraw and this distorts the relationship between the company and its suppliers.

4.4.1 High rate of employee turnover

The interviews conducted revealed that financial distress also leads to high rate of employee turnovers as illustrated below:

Interviewee 3: *"Financial distress causes a company to be unable to pay its employees ad other members of staff. Money is the biggest motivator which is the reason why most people go to work and if the employer is failing to pay the workers, then they will be forced to quit. There are no two ways about it."*

Interviewee 4: *"Financial distress simply explains that a company is broke and unable to settle its financial obligations which include paying salaries and wages. If the employees are not getting paid on time they will stop coming to work and no company will be able to function without employees."*

The research findings revealed that financial distress entails that a company has accumulated a huge debt which it is failing to pay and this includes paying the salaries and wages of the workers. The research findings concur with Mandibaya (2022) who stipulate that Star Africa in 2017 had a huge employee turnover in the history of the company because the company had fallen into financial distress. This was also supported by a study carried out in the banking sector of Nigeria which revealed that most bank workers were forced to leave their duty stations because the banks were failing to pay their salaries for over six months (Mwangi, 2014).

4.5 Section C: Financial distress predictions

4.5.1 Importance of financial distress predictions to the organization

The research sought to ascertain the importance of financial distress predictions and the findings revealed that financial distress predictions can provide early warning to the company and the company can take action to address the problem before it actually happens. The research findings concur with Enyew et al (2014) who stipulate that financial distress predictions act as an umbrella which brings an encouraging operating environment by providing protection against possible losses of many kinds.

The interviews conducted by the researcher also revealed the importance of financial distress predictions as illustrated below:

Interviewee 1: "*Financial distress predictions are important for any organization because it predicts whether or not a company will face financial distress. Therefore, this information helps the management to take preventive action to avoid financial distress.*"

Interviewee 2; "*Bankruptcy forecasts are vital for all companies whether listed on the stock exchange or operating solo because they companies to make wise financial decisions because they become aware of what the future beholds. This is very important information and a company will be able to gain a competitive advantage.*"

This was also supported by Interviewee 3: "*Financial distress predictions are important because they promote financial discipline for any organization as well as showcasing an effective way of handling finances. This is especially so for companies that are listed on the Zimbabwe Stock Exchange because in order to attract new investment, a company should have a promising future to ensure profitable returns.*"

The above citations show that the interviewees all agreed that financial distress predictions play an important role in the day to day operations of a company because a company will be able to know its financial status. The research findings are in line with Rand (2014) who state that early financial distress warning systems are important because they detect problems in the organization before they materialize and cause real time problems for the organization.

4.6 Chapter summary

The study sought to analyse the impact of financial distress predictions on Star Africa Corporation and the results of the research were presented. A total of 34 participants participated in the study and the research findings revealed that financial distress was caused by poor debt management, fraud, technological advancement and economic instability. The research study revealed that financial distress had negative impact on the organization such as low investor confidence, weak contracts wit the suppliers and improper an ineffective demand and forecast. In order to address the challenges, Star Africa Corporation implemented cost mitigation strategies, disposal of the company's assets and received assistance from the financial regulatory bodies. Therefore, amid financial distress Star Africa Corporation got to understand the importance of financial distress predictions and why it is crucial for the organization to forecast its future financial status. The key informants from SECZ also reiterated on the importance of financial distress predictions for companies listed on the Zimbabwe Stock Exchange.

CHAPTER 5

SUMMARY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of findings, conclusions and recommendations made for this study. This is done in line with the research objectives and the research questions.

5.1 Summary of major findings

The research was conducted to analyse the causes of financial distress on firms that are listed on the Zimbabwe Stock Exchange. A total of 34 respondents participated in the study and 30 questionnaires were distributed and 4 interviews were conducted with the key informants, 2 were from the Securities and Exchange Commission of Zimbabwe which is responsible for regulating the Zimbabwe Stock Exchange. The research findings showed that majority of the respondents were men 59% and 41% were women. The demographic information of respondents captured the age of the respondents which revealed that majority of the respondents were above 45 years of age. Majority of the respondents also had a minimum of an undergraduate degree and 94% of the respondents understood the meaning of financial distress.

The research findings revealed that economic instability was the major cause of financial distress at Star Africa Corporation because of hyperinflation, fluctuating exchange rates and harsh government policies. Another cause of financial distress according to the study was poor debt management because the company was incapacitated to pay off the suppliers, pay salaries and wages and high interest rates from its creditors. Technological changes were also indicated as another cause of financial distress and fraud. The research findings revealed that financial distress can be cause by a combination of internal and external factors all of which cause a heavy financial burden on the company.

The study sought to analyse the impact of financial distress predictions on the organization. The research findings revealed that financial distress leads to lower investor confidence, improper and ineffective demand and forecast. The interviews conducted also revealed that financial distress leads to high rate of employee turnovers as employees leave an organization if thy are not getting paid on time.

The research study revealed that Star Africa Corporation adopted some measures to address financial distress and this include cost mitigation measures such as downsizing operations and retrenching some employees. These are urgent measures implemented to address financial distress in the organization. Improvement in the production of sugar was another measure implemented to address financial distress and this was done through producing high quality sugar through minimum costs. Another measure implemented by Star Africa Corporation to solve financial distress was disposing some of the firm's assets in order to fund operations and settle debts. Acquisition of the company by a private firm was another alternative to address financial distress, during interviews the key informants from SECZ revealed that state intervention is another measure implemented by the financial regulatory bodies to assist firms that are financially distressed.

5.2 Conclusions

The first objective of the study sought to analyse the impact of financial distress predictions on companies listed on the Zimbabwe Stock Exchange and the research findings revealed that financial distress predictions are important. This is because financial distress predictions act as an early warning system for the organization as they forecast whether or not the company will fall into financial distress.

The second objective of the study sought to ascertain the financial distress determinants of the organization. The research findings revealed that determinants such as financial ratios showcase whether or not the company is making enough money to meet its financial obligations. Therefore, this information can be used to determine whether or not the firm will fall into financial distress. Firm size is another variable than can be used to determine the financial position of a firm, in this case, the larger the firm the less likely it will fall into distress because bigger firms are capable of surviving any shock because of their size. However, if there are many red flags, the firm will fall into financial distress regardless of the size as was the case with Star Africa Corporation.

The third objective of the study sought t understand the causes of financial distress and the research findings revealed that financial distress is caused by poor debt management, fraud, technological changes, economic shocks and fraud. Star Africa Corporation fell into financial distress because of the combination of the aforementioned factors and the company was unable to control the situation.

The fourth objective of the study was to analyse the impact of financial distress on firms that are listed on the Zimbabwe Stock Exchange and the research findings revealed that financial distress can lead to lower investor confidence. Financial distress also leads to bankruptcy of the firm and in worst case scenario, financial distress can lead to the closure of a company. Therefore, these factors showcase the reason why it is important for companies to adopt financial distress prediction system in their organization. Star Africa Corporation realized the importance of forecasting the future financial position of the company.

5.3 Recommendations

- The research findings indicated that financial distress has devastating effects on the organization as was the case with Star Africa Corporation. The study recommends that firms should manage debts effectively before they accumulate high interests. Frequent audits should also be done to prevalent fraudulent activities in the organization.
- The research findings revealed that financial distress prediction systems are very important for an organization. The study recommends that all companies should implement financial distress predictions in order to implement preventive measures before it actually happens. The firm will be better prepared for external factors that cause financial distress.
- There are some financial distress indicators that an organization can observe to see whether or not the organization will face financial distress. The study recommends that firms should pay attention to these indicators in order to easily forecast the financial position of the company.

5.4 Recommendations for further research

- The study recommends that for future research should focus on financial distress predictions for companies that are not listed on the Zimbabwe Stock Exchange in order to carry out a comparative analysis if the results obtained will be the same as those of companies listed on the ZSE.

APPENDIX

QUESTIONNAIRE FOR EMPLOYEES AT STAR AFRICA CORPORATION

Section A: Demographic information of respondents

1. Gender: Male [ ] Female [ ]

2. Indicate your age range below

18-25 years	26-35 years	36- 45 years	Above 45 years

3.Specify your academic qualification

ZIMSEC Ordinary & Advanced Level	National Certificate/ Diploma	Undergraduate Degree	Postgraduate Degree

4. Do you fully understand the meaning of financial distress?

Yes [ ] No [ ]

Section B: Financial distress

5. Has the company ever experienced financial distress

Yes [ ] No [ ]

6. If you answered yes, please indicate what was the cause of financial distress **(Please tick where appropriate)**

Poor debt management	
Fraud	
Technological changes	
Economic instability	

7. How was the company able to recover from financial distress?**(Please tick where appropriate)**

Cost mitigation measures	
Improvement in the production of sugar	
Disposal of the company's assets	
Acquisition of the company	

8. What was the impact of financial distress on the financial performance of the company?

____
____
____
____

Section C: Financial distress predictions

9.Do you think financial distress predictions are important for the organization?

____
____
____
____

10. What are the most important financial distress determinants that the organization now pays attention to? (**Please tick where appropriate)**

Thank you for your time and participation.

INTERVIEW GUIDE FOR THE KEY INFORMANTS

1. How does the Zimbabwe Stock Exchange function?

2. What do you understand by the term financial distress?

3. What is the impact of financial distress on companies?

4. How does the SECZ assist companies that are financially distressed?

5. How does financial distress predictions assist companies listed on the ZSE?

6. What recommendations would you give to companies listed on the stock exchange?

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