



**Investigating the effects of financial management practices on  
financial performance of a State-Owned Enterprise in  
Johannesburg**

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## **DECLARATION**

I, Sizwe Ntuli, declare that presented in this dissertation is the research study conducted by myself and it is presentative of my own work, in conception and execution. Each source that has been quoted or used was acknowledged by mean of completed references. This work has not been submitted in any form for another degree at any university or institution of higher learning.

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Date

## **DEDICATION**

This dissertation is dedicated to my late grandmother, Mrs JK Ntuli who always believed in me and emphasised the importance of education. Thank you Gogo for holding your head up high and surging despite every snag life threw at you. You taught me the survival skills and the power of education, for that I will forever be thankful for as long as I am still alive. I wish you were still alive too to witness the results of the seed ploughed in me.

## **ACKNOWLEDGEMENTS**

Firstly, I am thankful to God for giving me this opportunity and giving me the strength and the wisdom during this whole dissertation. Nothing is impossible with God.

I wish to thank my family and friends for support and encouragement when it was needed the most.

I would like to thank Sidwell Hugo, the gate keeper who made it possible for me to conduct a study in her organisation.

Lastly, I would like to thank my supervisor Dr ZW Nzuza for everything. I couldn't have asked for a better supervisor. Thank you so much for your guidance and support throughout for a period of over two years. Thank you for your patience and pleasant disposition with every review in countless number of submissions and attempts.

*"If you give up on your dreams, what's left?"*

**Jim Carrey**

## **ABSTRACT**

The effectiveness of financial management practices in the state-owned enterprises (SOEs) is becoming extremely indispensable and frugal in South Africa. However, the dynamics of the effectiveness of financial management practices on the SOEs is not much reconnoitred or not in existence in the collected works of academics with previous studies largely paid attention to the private sector whereas there is also a monumental necessity for the SOEs to be financially viable. Therefore, this study insightfully examined the employees' perceptions on the effects of financial management practices (independent variable) on improving financial performance (dependent variable) in a selected South African SOE. Quantitative research design was employed in the study, and it was cross-sectional in nature. The survey questionnaire was utilised as a primary data collection tool. The study adopted a convenience sampling method which resulted in a sample size of 69 respondents at the response rate of 74%. The statistical results were determined using Statistical Package for Social Sciences (SPSS) (version 27<sup>®</sup>). The study revealed a positive relationship when measuring the independent variables against the financial performance. The study recommended a resilient application of cash management practices in the form of determining target cash balances on a regular basis as a working capital management practice to realise enhanced financial performance. The study further recommends that as the firm considers expanding the investments to real estates, that practice should be aimed at firm value maximisation. It is further recommended that future similar studies consider broadening the research scope by including all the operational divisions of an SOE from different regions throughout South Africa.

**Keywords:** Financial Management; Financial Performance; Working Capital Management; Investing decisions; Financing decisions; Capital Structure

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# CHAPTER 1

## INTRODUCTION

### 1.1 BACKGROUND TO THE STUDY

Financial management is an imperative aspect of every business concern, as decisions relating to financial management can result in success or failure of the firm. Outlined in this chapter are, the study background, research problem, aim and objectives of the study and the justification of the need for conducting the research study. The chapter also provides the outline of the dissertation.

Financial management is the combination of activities that play a significant role in the management of the enterprise. Financial management activities include long term investment decisions, financing decisions, short term financial decisions known as working capital management and other financial activities that seek to improve the operation efficiency and to take control of the business operations (Le *et al.* 2018:15). The financial performance is the result and reflection of the effectiveness and efficiency of the management of resources operational, financing and investing decisions (Ayako, Kungu and Githui 2015:86). This signifies that the financial performance is the result of the financial management.

The literature review theories indicated that the variables of financial management financial which are working capital management, financing decisions, investing decisions and dividend decisions are directly related to the financial performance of the firm. However, the findings are not consistent in all the literature. For instance, although a study by (Alvarez, Sensini and Vazquez 2021) found a relationship between working capital management and financial performance to be positive. The study by (Nthenge and Ringera 2017) revealed that the relationship between working capital management and financial performance is insignificant when considered individually without other financial management practices. None of the existing reviewed literature have sought to deliberate on how working capital management, financing decisions and investing decisions affect the financial performance of a state-owned enterprise in Johannesburg. Therefore, this is the gap this study seeks to fill.

Financial management remains one of the most important components in any business entity. According to Jain, Singh and Yadav (2013:23), financial management is about financing and investing decisions. In the context of this study, state-owned enterprises (SOEs) are an important sphere of government because of their proximity to ordinary citizens in terms of delivering goods and services. Public Finance Management Act (PFMA) defines SOEs as a juristic person whose ownership is under the state and is controlled by the national executive.

It is given and delegated independent financial and operational authority to conduct business with the principal to provide goods and services in accordance with normal business principles. SOEs are fully or partially owned by the state. In relation to an SOE where the study was conducted, government solely owns the enterprise.

Although these entities are owned by the state and offer goods and services at regulated economical rates to the citizens. The definition indicates categorically clear that the SOEs are operating under normal business principles, the normal business principles are to generate income, make profit and firm value maximisation which necessitate financial management practices to ensure growth and sustainability unlike the government departments that are only established to serve and render the service to the community with no intention of making profit.

## **1.2 RESEARCH PROBLEM**

Generally, SOEs in South Africa are of a great importance as they play significant role in delivering significant service to ordinary citizens of South Africa and regarded as drivers of economic growth while entrusted with the responsibility of ensuring there is equal access in quality services. One division of an SOE where the study is conducted is the largest division of an SOE, it specialises in the freight transportation and is one of the heavy haul freight rail companies at a world class level.

The SOE receives continuous financial support from government in terms of funds, rebates subsidies and bailouts but are still seem not to meet its financial obligations as expected nor improve the financial performance or financial position of the company. It is arguable that generally SOEs' guarantees by government lowers their financial performance (Marimuthu 2020:41).

It is not the responsibility of the government to completely fund SOEs' operations (Marimuthu 2020:45). It is evident in the 2018/19 financial statement of an SOE that the enterprise is not doing as expected. This study therefore seeks to find out how do financial management practices affect financial performance.

Sizwe Ntsaluba Gobodo Grant Thornton Inc. (2019:28 - 125) and (2020: 26-129) revealed qualified audit for both consecutive years, this qualified audit is due to irregular expenditure of R108 000 000 in 2020 and R484 000 000 in 2019 amongst other things, which results in compromised financial performance of a decrease in profitability and assets value of SOE the research study is conducted for. The measures financial performance this study focuses on is revenue volume, assets growth and profitability. Looking at how finances are managed currently at a SOE only revenue is increasing from the 2019 to 2020.

This study seeks to explore if the practices of financial management are applied and the effects it has on the financial performance of the enterprise. The SOE where the study was conducted is identified as one of the 3 significant risk SOEs audited by independent audit firms other than Auditor General South Africa (AGSA), The reason it is regarded as a significant risk SOE is because of its financial performance.

There has been publicity about the outcry on SOEs constantly having irregular, wasteful and fruitless expenditure annually and it seem to be increasing from year to year whereas it is expected to formulate innovative revenue strategies, accountability mechanisms and financial management which seeks to financial sustain the enterprise. According to Hildreth *et al.* (2016:142) financial management in the SOEs has become crucial today and cannot be glossed over. If there are no interventions concerning to how the operations of SOEs are conducted, their collapse will result in a monumental holdback in terms of economic growth and development in the county.

### **1.3 RESEARCH AIM AND OBJECTIVES**

#### **1.3.1 Aim**

This study aims to explore finance staff perceptions on the effectiveness of financial management practices on improving financial performance of a state-owned enterprise in Johannesburg.



This study builds on the knowledge that SOEs in South Africa are not performing well financially due to complex dynamics which includes amongst other things fraud and corruption, lack of accounting mechanisms and control and mismanagement of finances. Hence this study seeks to investigate the financial management approaches that the SOEs can use to improve their financial performance.

### **1.3.2 Objectives**

This research seeks to achieve the following objectives:

- To assess finance staff perceptions on the effectiveness of working capital management (WCM) to improve financial performance.
- To reveal finance staff perceptions on how investment decisions, contribute to improve financial performance.
- To ascertain finance staff perceptions on the effectiveness of financing decisions to improve financial performance.
- To explore factors influencing capital structure and how they affect the financial performance.

#### **1.3.2.1 Research questions**

The following questions are set as guidelines to fulfil these aims and objectives:

- What is the finance staff perceptions on effect of WCM to improve financial performance?
- What is the finance staff perceptions on the role of investment decisions to improve financial performance?
- What is the finance staff perceptions on the effectiveness of financing decisions to improve financial performance?
- What are the factors influencing capital structure and how they affect the financial performance?

#### **1.4 RATIONALE AND SIGNIFICANCE OF THE STUDY**

The purpose of this study is to assess the impact of the financial management practices on financial performance at SOE based in Johannesburg. The SOEs are faced with ever-increasing poor financial performance, requiring them to be bailed out and paid out by the government. Financial stability appears to be an ongoing problem leading to the poor financial performance of the SOE.

As the study is intended to establish an understanding on how the financial management practices improve the financial performance of an SOE. Thus, the study will contribute through creating positive suggestions on how a SOE can apply financial management practices to achieve an improved financial performance.

The progressive recommendations that are believed to assist the with financial management are asserted in the research study. Although the study focuses on 1 out of 21 major SOEs in South Africa, it is believed that recommendations made by this study can be used for improving financial performance of other SOEs.

In South Africa, SOEs are the largest business enterprises. Their objective is to ensure national economic growth and diversification of the country's economy (Nethathe, Van Waveren and Chan 2015:17). The failure of proper financial management in SOEs will not only compromise the quality of service provided to the community of South Africa but also contribute to the already existing unemployment and impede the economic growth of the country. It has been published in newspapers, national television, debated on radios and parliament by people and elected political parties and government officials that from time to time when there is a need for SOEs to be bailed out by government because it is not doing well financially, it is due to lack of financial accountability, mismanagement of finances and corruption amongst other things. Effective financial management and control is critically important to every organisation (Khanyile 2016:06).

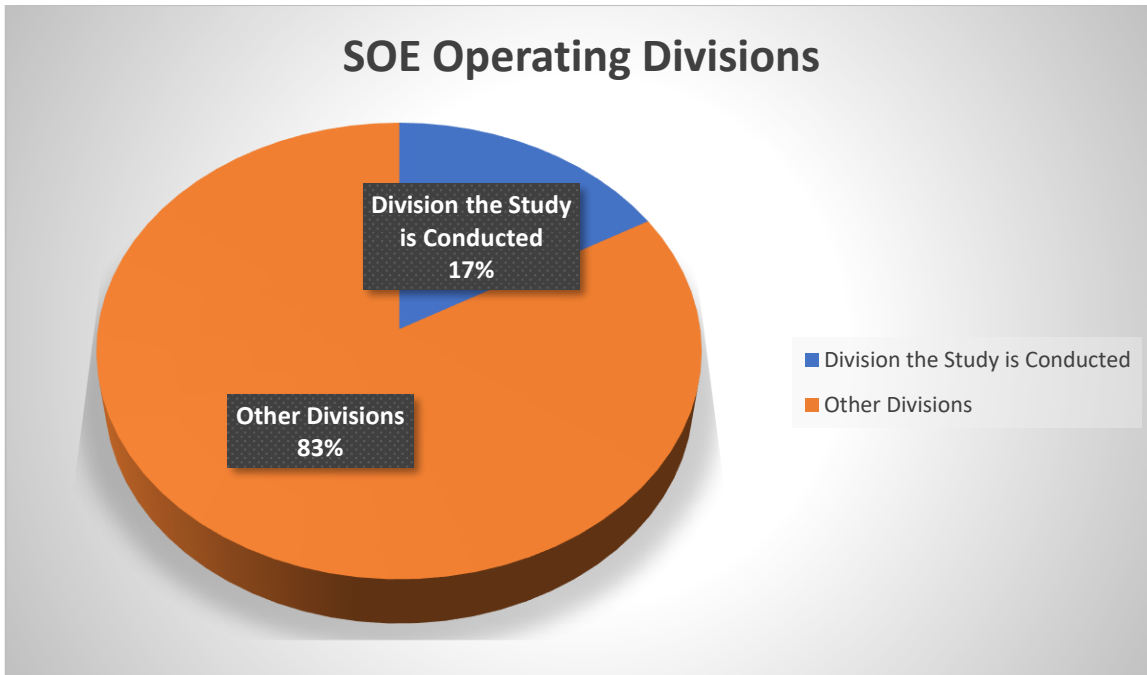
The theoretical frameworks that will be used in this study are financial theory of investment, contingency theory, trade-off theory and pecking order theory. Pecking order theory suggests that there is no aimed optimum capital structure, but firms have a certain preference order for using its capital to finance their investments which in the following order: internal finance, debt, and equity.

The reason for choosing this theoretical framework for this study is because of the revelation by Chen and Chen (2011:13) that pecking order theory is one of the most influential theories in the corporate finance in recently. The financial theory of investments means that the fragility of the markets through interest rates, cash flow etc impacts the financial performance of the firm either negatively or positively. This theory remains relevant because the funds for investing and maximising the value of the company are dependent on the debt availability in the markets.

### **1.5 LIMITATIONS**

The SOE where the study was conducted is one of South Africa's SOE that consists of six core divisions. Out of all the six divisions, only one was chosen for this research study, this is due to the interest of time and costs constrains. The scope of this study is limited to one division of the entire SOE, this division happens to be the largest division for the SOE. The study will be founded on the sample limited to staff members of the SOE within finance sections in Johannesburg area, in Gauteng province.

Presented in Figure 1.1 below is an indication that one division where the study was conducted represents 17% of core divisions of the SOE. Hence, the results that are going to be revealed by the study are limited to the one division of the SOE based in Johannesburg branch and cannot be generalised to the entire SOE nationwide.



**Figure 1. 1: SOE’s Operating Divisions**

**1.6 OVERVIEW OF CHAPTERS**

This research study constituted of five chapters in the following form.

**1.6.1 Chapter 1**

Chapter one is an introductory phase of the research study. It outlined the details of on importance of conducting this research study, the details of the research problem, aim and objectives were identified in this chapter. The outline of the manner in which the study is to be conducted was also part of the first chapter.

**1.6.2 Chapter 2**

Chapter two comprise of the literature review. The structuring of this chapter was in line with the objectives of the study. The already existing literature was constructed on financial management and financial performance; this is because this research study seeks to establish the effect of financial management practices on financial performance.

### **1.6.3 Chapter 3**

The third chapter will present the explanation of the research approach and the reasons behind why the chosen research approach were appropriate for the research study.

The following are the aspects covered by the chapter: research methodology, research design, data collection methods and instruments used in the research study, sampling methods utilised in data collection and data analysis method.

The chapter provide details of how the pilot study was conducted prior the main study as a way of testing the instrument. The discussion of the main study then followed the pilot study.

### **1.6.4 Chapter 4**

This chapter discuss data analysis findings, it interprets the questions from the questionnaire. These findings are then utilised to either confirm or reject thee alongside with findings in the literature review.

### **1.6.5 Chapter 5**

In the fifth chapter aim and objectives of the research study are revisited with the study results. Thus, the research questions are answered in this chapter.

## **1.7 CONCLUSION**

The background of the study was covered briefly in this chapter. Aim, objectives, and rationale of the study were examined alongside with the delimitations, and the research methodology the study will employ. Chapter two will give a brief conceptualisation of financial management practices on how they are linked to the financial performance. The already existing literature will be used to assess the effects of financial management practices on financial performance. Chapter two will discuss the already existing built information and views about financial management practices on financial performance and the SOEs.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

Chapter one highlighted the background for the study including the research problem, aim and objectives, limitations, and a brief outline of the financial management. Chapter two is of importance as it relates to the existing built information and views about financial management practices and SOEs. It is grounded on literature review on financial management practices which ensure that the researcher is completely observant, and alert of the existing studies conducted by other researchers. The focus area of this study is financial management practices namely, working capital management, capital budgeting, financing decision and capital structure decision. These practices of financial management are measure against how the firm performs financial in respect of profitability, return on assets amongst other measures.

The literature review aims at providing the context for the entire research study. It provides the degree of solid understanding the researcher has about the context of the study. Reviewing existing literature, on the aspect in question allows the researcher to identify the gaps that exist. The researcher achieves this by performing an in-depth critique of the existing literature. An in-depth critique entails identification of shortcomings in the existing literature and making possible contributions. Furthermore, the literature review gives direction to the research methodology which must be used in this study (Dawidowicz 2010: 14). This chapter presents an overview of how the financial performance of the firms are impacted by the application of financial performance practices.

#### **2.2 STUDY THEORETICAL FRAMEWORK**

##### **2.2.1 Financial theory of investment**

This hypothesis was suggested by Minsky (1986). This theory is the link between the financial market fragilities in the normal economic lifecycle, with the uncertainty of investments in financial markets. In line with this theory, in the times of flourishing, the company's cash flow becomes way more than what it needs to pay its debts.

When risky times of uncertainty comes afterwards, debts exceed what the borrowers can manage to pay back from their revenues. This becomes a huge financial disaster. It is because of this result that the lenders, banks, and borrowers tighten the availability of credit. This theory then suggests that the availability of debts to finance the business investments is dependent on the financial market cycle. When the financial markets performance is in good health there is excess in the cash flow which makes credit easily accessible by the borrowers. This gives access for the business to borrow. However, as the performance of the market becomes riskier due to excess borrowing, lenders tightly control lending (Nthenge and Ringera 2017: 09)

The relationship demonstrated by this theoretical framework between debt financing and investments shows that the expansion of capital structure through debt can depends on the availability of credit from the financial markets. It will be used to explain how a SOE is affected by the financial markets in a situation where there is a need for growing the capital structure through debt due to the increase in demand for output and how the enterprise manages its working capital to reduce the need for external assistance in terms of financing their investments.

### **2.2.2 Trade-off theory**

This theory dates back to the capital structure debated by Modiglian and Miller (1958). Chipeta and McClelland (2018:16) revealed that Modiglian and Miller argued that given the perfect conditions of the markets, the variations in leverage and equity are insignificant and do not impact the value of the firm. In agreement with this Narmandakh (2014:02) opined that in a perfect market world i.e. (where there are no taxes, where there is credible and perfect disclosure of all the information and no transactional costs) the value of the firm is independent and not influenced by the capital structure whether it is equity or debt financed, since the debt capital and equity capital are the perfect alternatives for each other. Given the imaginary perfect markets, Modiglian and Miller (1958) came to the realization that there is no such a thing and developed a realistic theory that takes into consideration debt.

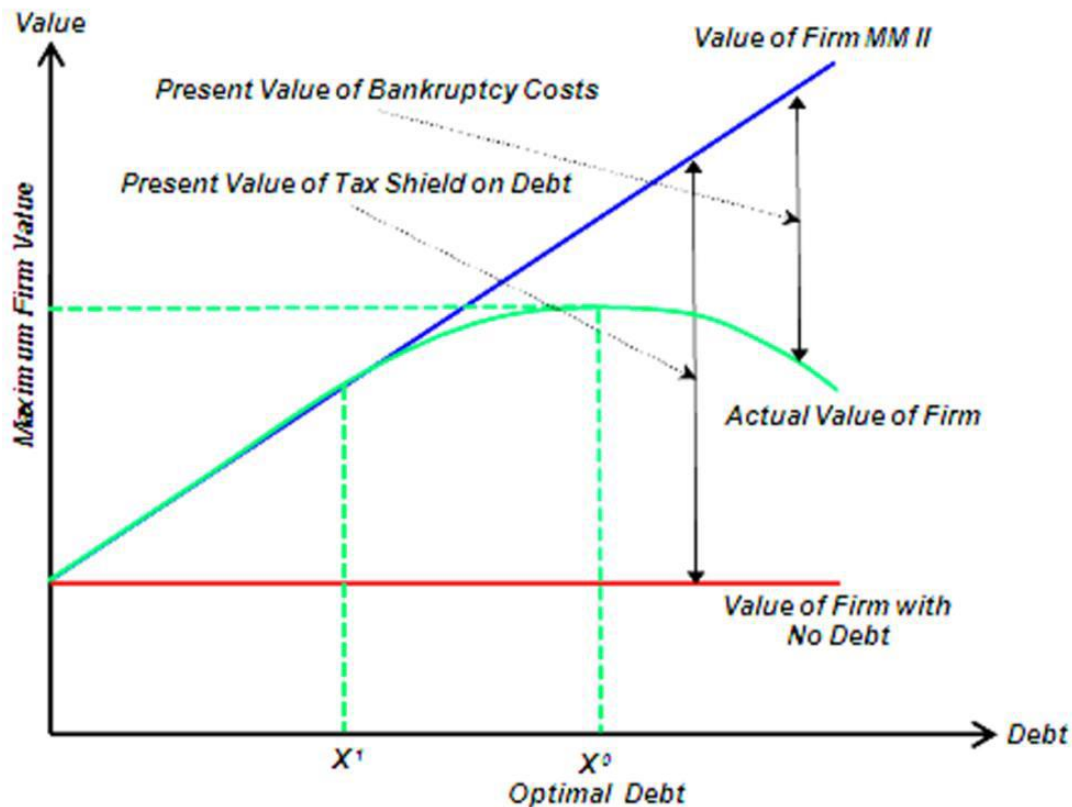
In concurrence with this, Gwatidzo, Ntuli and Mlilo (2016:278) suggests that trade-off theory is attached to the debt utilisation which carries both the benefit and inherent costs. There is an advantage that comes with debt utilisation because of the tax savings emanating from the finance costs tax deduction further states aforementioned authors.

However, the more the firm is financed with debt, there more risk of financial distress and bankruptcy the firm is exposed to. The firm sets a target debt ratio and through the use of target trade-off between the costs and benefit of the debt progressively move towards the targeted debt ratio presumed by (Zunckel 2018:22). Onaolapo, Kajola and Nwidobie (2015:178) recommended the significant need for financial managers to be cautious when taking debt or loan as this commitment may raise operational and financial risks if it is taken at wrong financial mix.

The trade-off theory is based on the balancing of debts costs and the benefit of that debt through the interest tax shield, leading to the conceptualization of an optimal capital structure (Onaolapo, Kajola and Nwidobie 2015; Balios *et al.* 2016). The optimum capital structure is achieved through balancing the bankruptcy costs and tax savings, benefit of debt (Cole and Sokolyk 2018:612). Sibindi (2017:18) put forward that the firm financed with debt enjoy the benefits of debt tax shield until the optimum point where the present value of tax shield is equals to the financial distress costs (bankruptcy). From this optimum point it is no longer a wise decision to finance the company out of more debt as it risk paying more interest on debts and going bankrupt.

Koroti (2014:10) reveals that the trade-off theory argues that the value of enterprises with low leverage and high leverage are not the same. The study further reveals that the company with high leverage has reduced financial performance and is sensitive to change in sales and small variations in sales effects the financial performance adversely. High level means the company is more financed by debt than equity, low leverage is vice versa.





**Figure 2. 1: Illustration of Trade-off's theory value to the firm**

Source: Ross, Westerfield, Jaffe and Jordan (2008:465)

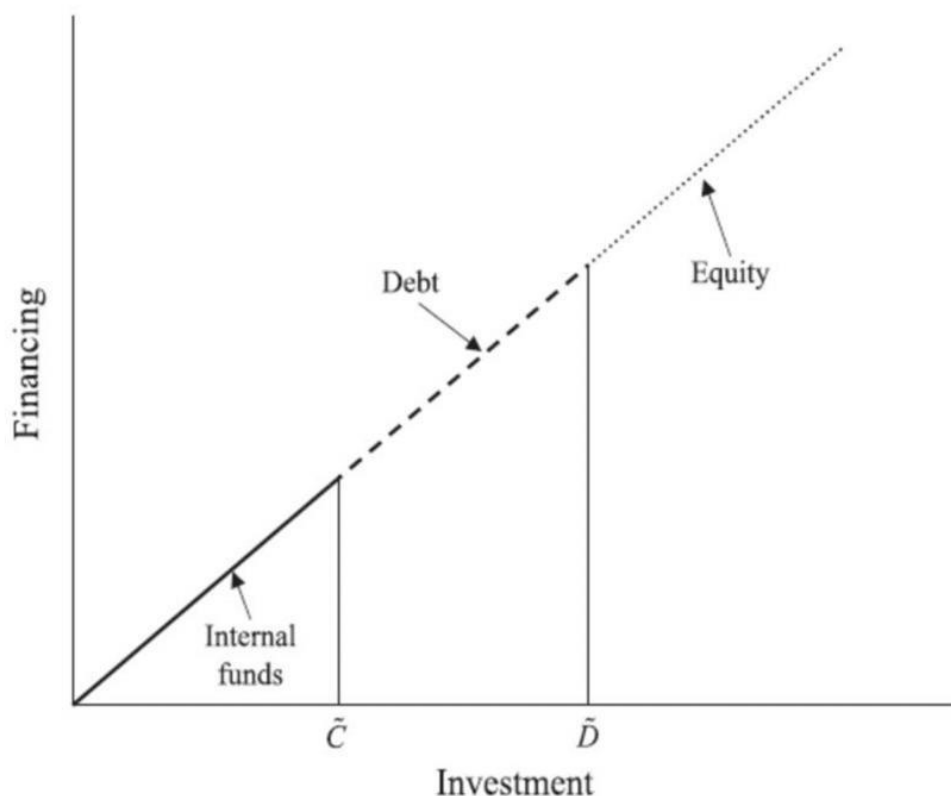
### 2.2.3 Pecking Order theory

The theory was suggested by Donaldson in 1961 and further developed by Myers through Myers and Mailuf (1984) cited in (Javed and Jahanzeb 2012:553), contrary to the trade-off theory, it put forward the argument on the bases of information asymmetries. The information asymmetries refer to managers of the enterprise possessing private information of the firm more than the external investors. This means that managers are most likely to issue equity when it is overpriced because when it is undervalued it becomes costly to the already existing shareholders and it is issued with less informational costs (Chipeta and McClelland 2018:17). In this context, financing the investments of the firm using new equity becomes more expensive mainly because investors carry more risk and they become a permanent part of the firm unlike debt that has maturity date.

Due to the assumption of information asymmetries, the pecking order then proposes that investments should be financed using a hierarchy of financing decisions starting with retained earnings, debt then new equity (Zunckel 2018:24). The equity is only released under undesirable pressure circumstances, or when investment surpasses earnings with a huge gap that financing with debt would create extreme leverage. Javed and Jahanzeb (2012:554) further suggests that in the short term, dividends are undesirable, leaving variations in net cash flows to be absorbed mainly by debt (Khanqah and Ahmadnia 2013:145). Bontempi (2002:19) conceptualises the pecking order theory as an error correction mechanism and when applied to a vast panel dataset.

Botta (2019:143) further revealed that the hotel SMEs used optimal capital structure that allowed them to maximise the value for the shareholders, meanwhile having both too little and too much debt resulted in a reduced financial performance. This study examines the empirical validity of this theory and will be used to explain how an SOE in Johannesburg decides to choose where to get the funds. This theory suggests that firms are most likely to start financing their investments with cheaper sources to the expensive.

The intention for using the pecking order is to minimise the cost of capital which has a potential of reducing profitability and financial performance of the company in general. The theory's relevancy to this study is that it explains the circumstances influencing the capital structure which is an independent variable of the study. There are financial management repercussions from the firm's financing choices justifying the decisions made amongst debt financing, equity financing and mix ratio financing.



**Figure 2. 2: Illustration of the pecking order theory**

Leary and Roberts (2010:334)

#### **2.2.4 Theoretical framework for the study - Contingency Theory**

According to Pike (1986) efficient resources appropriation is not only concerning the adoption of high-level exceptional capital investment methods but the management have to consider the background of the firm and capital appraisal system. The leadership structure of the organisation was identified as the number one aspect of corporate context that has impact on the firms' appraisal system. This signifies that even if the firm adopts sophisticated investment techniques but there won be any significant improvement in the financial performance if the management style of the organisation in not in line with the business model it operates under. However, Haka (1985) argued that as long as capital budgeting techniques are applied in a stable environment the returns on investment are to be yield.

Yator (2018:13) identifies environmental sustainability as the second feature, unsuitable inflexible capital budgeting structures are as the result of the unpredictable state of operations. The final feature identified by Pike (1986) is the behavioural characteristic. Management style, firm history and professional competency degree are the 3 features classified by Pike (1986). Contingency is a behavioural based theory that suggests there is 'no one size fit all' best way when it comes to leading the firm and decision making (Nyongesa 2017:29). The theory suggests that managing the firm differs from one firm too another, from one business model to another. The contingency theory features are dependent (contingent) on the internal and external factors. There is no single theory for contingency management.

The theory's proportion to the study is that the financial performance of the SOE may be influenced by different contextual factors, In the situation of the SOE it may include the national executive body that is responsible hiring and firing SOE's chief executive officers and what drives them to. Another proportional element of the theory to this study is the fact that there are financial management practices that might work well with certain firms but not others. The efficiency is achieved through striking of the balance between the financial systems operation and the corporate settings (Brijlal, Enow and Isaacs 2015:13). This theory relates to all the financial management practices not just one and the dynamics of the SOE finds the expression within this theory as it might be different from other entities. It is because of this reason the theory is chosen over the theories discussed above.

## **2.3 DEFINITIONS OF THE KEY TERMS**

### **2.3.1 FINANCIAL MANAGEMENT**

Le *et al.* (2018:15) describes financial management as the combination of activities that play a significant role in the management of the enterprise, financial management activities include long term investment decisions, financing decisions, short term financial decisions known as working capital management and other financial activities that seek to improve the operation efficiency and to take control of the business operations.

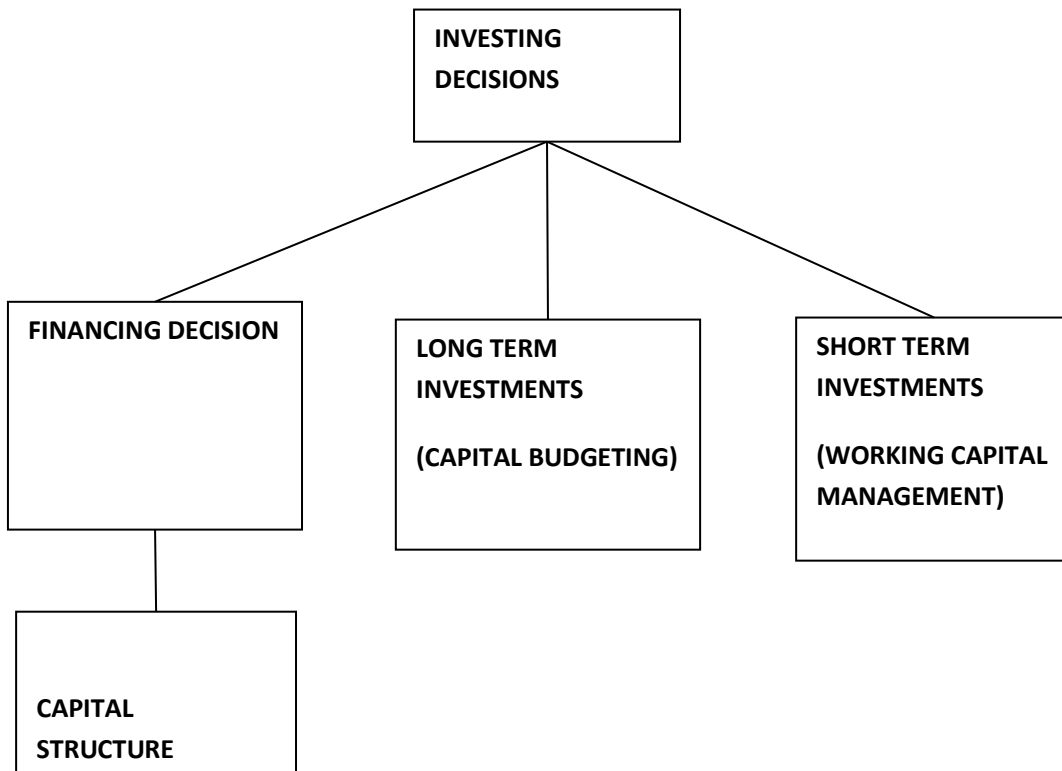
### **2.3.2 FINANCIAL PERFORMANCE**

The financial performance is the results and reflection of the effectiveness and efficiency of the management of resources operational, financing and investing decisions (Ayako, Kungu and Githui 2015:86). This signifies that the financial performance is the result of the financial management.

### **2.3.3 WORKING CAPITAL MANAGEMENT**

Working capital refers to the management of the short term investment and financing decisions, Working capital management as a lot impacts in the liquidity of the firm as it may lead to the bankruptcy of the firm if it is not managed accordingly (Asaduzzaman and Chowdhury 2014:175).

### 2.3.4 INVESTING DECISIONS



**Figure 2. 3: Link between Investing Decision and other financial management practices**

**Source: Developed by the researcher**

Capital budgeting is the most used term that refers to investing decision. Koroti (2014:03) observes that capital budgeting is associated with activities that requires current monetary commitment with the intention to reap future benefits from it. The capital budgeting requires heavy financial commitment and is the investment of money or other resources for a period of more than 12 months, any investment less than 12 months is referred to as a working capital management.

Investments are categorised into to real investments and financial investment where real investments refers to the investment of tangible assets such as machinery, land etc and financial investment involves papers or electronic contracts such as fixed deposits, debts amongst others (Chai 2011:01).

### **2.3.5 FINANCING DECISIONS**

The investing decisions refers to how funds are raised to finance the investments in the firm (Asaduzzaman and Chowdhury 2014). The better financing decision is the one not costly to the firm yet anticipate more future benefits to the firm.

### **2.3.6 CAPITAL STRUCTURE**

Popoola (2016:11) observes that a capital structure is a mixture of different securities issued by the companies to finance their operations. Thus, the capital structure terminology refers to the numerous long-term sources of financing firm operations such as debt, equity. The determination of the suitable capital structure is of paramount important decision to make in financial management planetary as it is directly linked to the maximising the firm value (Zunckel and Nyide 2019:17).

### **2.3.7 STATE OWNED ENTITY**

The statute book does not have a comprehensive legislative definition of a national or provincial state-owned enterprise. The definition of the state-owned enterprise is derived from the Public Finance Management Act (the PFMA) where all the SOEs are listed categorised whether they at a provincial or national level.

The SOE the study is conducted on is the national SOE but the study of it is confined in the it headquarters branch in Johannesburg. PFMA defines the national SOE as a national government business enterprise or, a board, commission, company, corporation, fund, or other entity (but national government business enterprise). The state-owned enterprise operates on normal business principles i.e., Operating autonomously from government and sustaining the business financially. An SOE where the study is conducted is solely owned by the state. Its ordinary shares are publicly traded on capital markets.

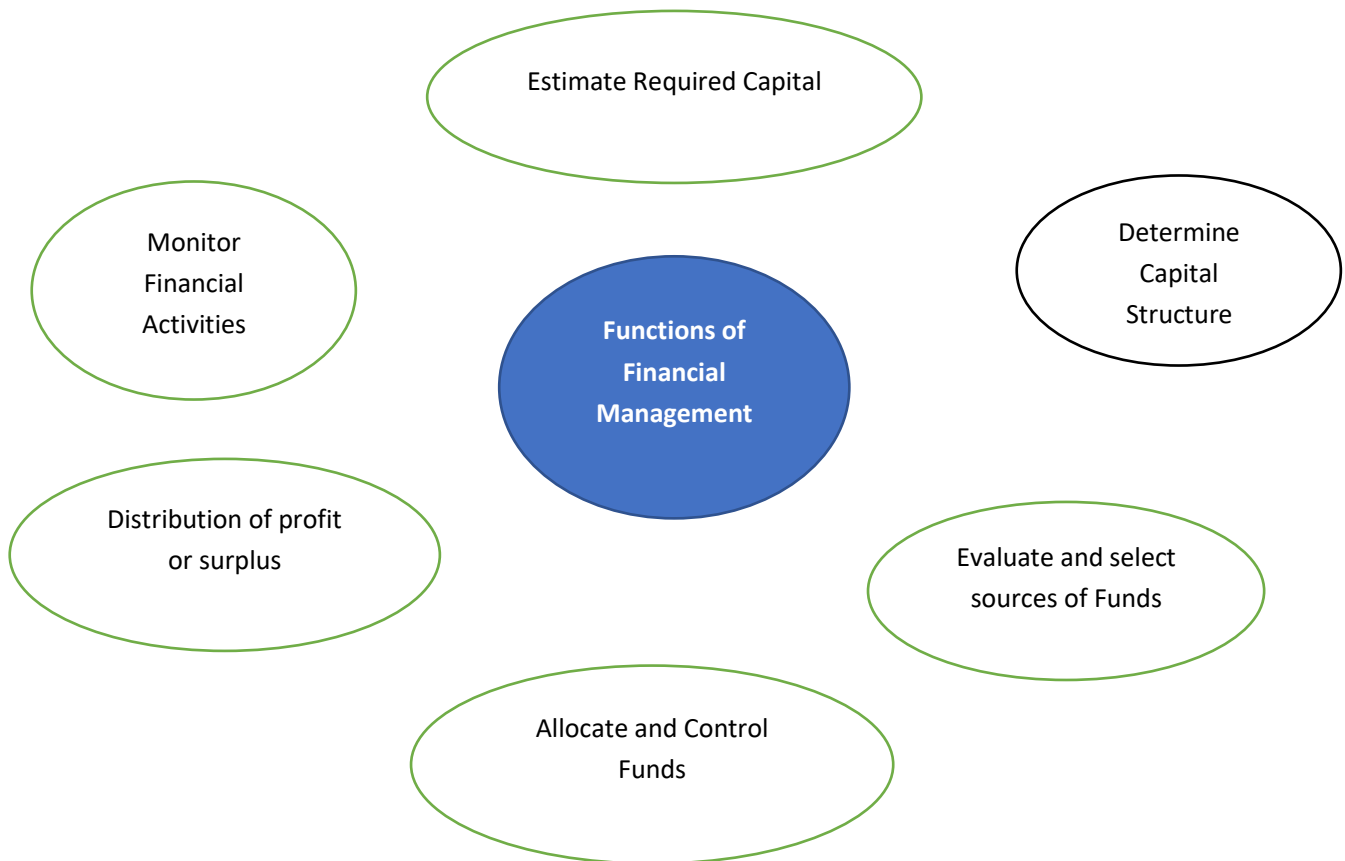
PFMA further defines a national government business enterprise as an entity that a) is a juristic being under the ownership reign of the countrywide administration and supervision; b) Is entrusted with the financial and operational authorisation to carry on a business activity; c) as its principal business, provide the goods and services according to the normal business principle; and d) is financed partially or fully from

sources other than - i) the National Revenue Fund; or ii) by way of a tax, levy or other statutory money.

There is an independent interpretation of the state-owned enterprise by Act, it defines the SOE as an enterprise registered in terms of the companies Act. It defines it as a company and either listed as a public enterprise in schedule 2 of the PFMA; or is owned by the municipality as stated in the Municipal Act Systems Act, 2000. The companies Act makes it clear that in cases where their definitions of SOE contradicts, the PFMA supersedes the companies Act (Bronstein and Olivier 2015: 11).

## 2.4 LITERATURE ON FINANCIAL MANAGEMENT PRACTICES

### 2.4.1 OVERVIEW OF FINANCIAL MANAGEMENT



**Figure 2. 4: Functions of Financial Management**

Source: Enow (2015:57)



The businesses operate in a world characterised by ever-changing external environment that puts firms under pressure to improve and constantly revise its financial management practices to improve the performance of the firm. Thus, the financial managers stress with the means to maximise the value of the firm.

The future streams of a firm's cash flow is the measure the value of the firm (Brigham and Daves 2014:207). It is this context that the financial managers decide on the actions to take to achieve firm's objective of value maximisation. To achieve the firm objective of maximising the value for shareholders, the firm needs to implement financial management practices to manage risks and improve financial management.

Generally, the financial management in SOEs is dictated by conditions of financial resources scarcity. However, in a broader sense, the financial performance can be upgraded through allocation and raising of financial resources and exploring better investment opportunities to attain the organisation's goals. Financial management is the standard activities performed by the organisation to ensure the efficient used of fund in a narrow sense.

Brijlal, Enow and Isaacs (2015:53) conceptualises financial management as the function relating to raising of finances to finance the enterprise's assets and operations, funds are allocated between competing uses, and ensuring that the funds allocated are used effectively and efficiently to achieve the organization goals and objectives. Titman and Keown (2015:26) identify five principles of financial management, namely, financial planning and control, financial accounting, financial analysis, management accounting, and capital budgeting, and Brigham, Ehrhardt and Fox (2016:43) further identify six financial management principles that are quite similar to the ones acknowledged by Titman et al. (2016) adding working capital as the sixth principle. In the context of this study financial management will be looked at in terms of three practises, namely Working Capital Management (WCM), investing decisions and investing decisions. Nthenge and Ringera (2017:09) asserted that the way financial management practices affect a firm's financial performance varies in different ways.

## **2.4.2 FINANCIAL PERFORMANCE**

Mutya and Josephine (2018:02) refer to the financial performance as the firm's capacity to effectively manage its operations efficiently, maintain profitability for survival, growth, and ability to react favourably on environmental opportunities and threats.

In agreement with this Almagtome and Abbas (2020:6780) affirmed that the financial performance is measured by how fundamentally efficient the organisation uses its resources to attain its objectives. According to O'Neill, Sohal and Teng (2016:16) when the firm performs any action of financial activities, it is referred to as financial performance. It is the measure of the level on how far the financial objectives are met.

Barringer and Ireland (2006) cited in Koroti (2014:06) state that financial performance serves as a function of both the choice of a business model and the effectiveness with which a firm uses its model. The importance of having a clearly articulated model is because it serves as a continuous feasibility analysis among other things.

Potential investors use financial performance as a factor to determine equity investments (Almagtome and Abbas 2020:80). Hence, continuous improvement of the financial performance is the commitment. Ranjbar, Espeed and Bagheri (2017:1849) defines financial performance as the efficiency of the utilisation of unit's resources and producing of outputs appropriate to achieve its goals and objectives. There are four important focal areas to pay attention to when assessing the financial performance of any firm. These are profitability analysis, working capital analysis, financial structure analysis, and activity analysis. In this study, this theory will be applied to see how the financial management principles are linked to the financial performance to improve the organisation's performance.

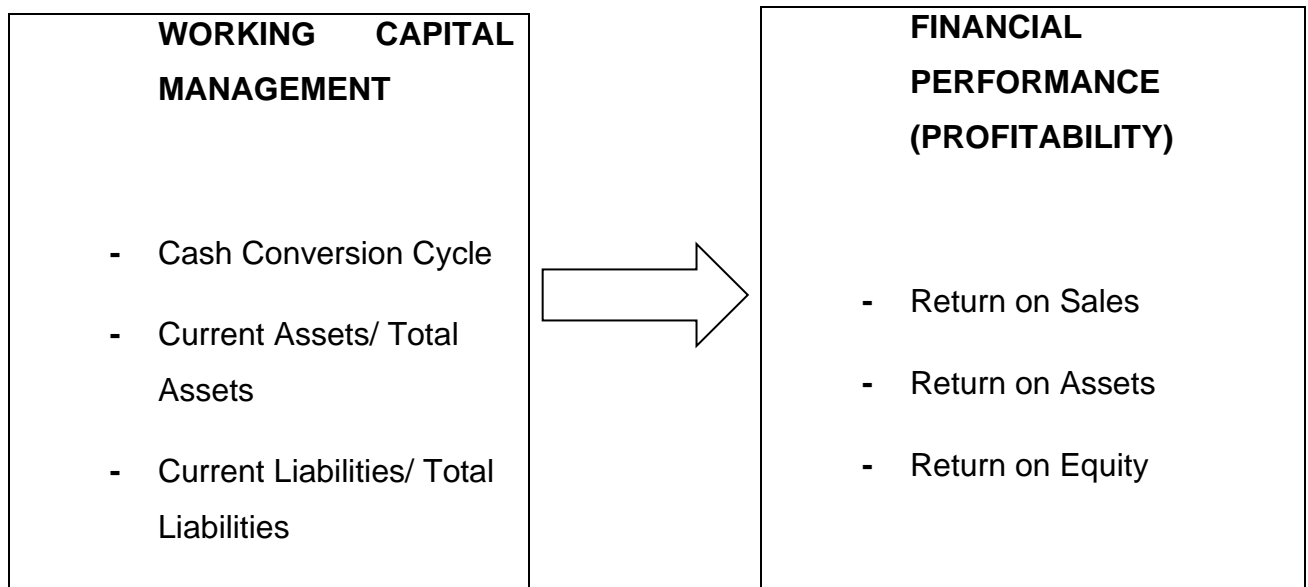
### **2.4.3 RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT AND FINANCIAL PERFORMANCE**

Financial management is described to as lifeblood of the business because any component within the firm is dependent of the finances. Maximisation of shareholders' wealth is the ultimate goal for financial management thus shareholders are concerned about how efficient funds are raised and allocated. This goal can be measured in more specific objectives of liquidity and profitability (Mutya and Josephine 2018:03). Mutya and Josephine (2018:03) further defines the financial performance as the abilities of the entity to meet the goal off its existence, and also identified it measures as indicators including sales growth, return on assets and profit growth amongst other. Almagtome and Abbas (2020:6778) identify measures of financial performance as combination of return in the investment of the shareholders, efficient use of resources and growth in sales.

From the given definitions it is plain evident that to achieve objectives of the enterprise financial management acknowledges the significance of efficient resources allocation. In the analyses of the relationship between financial management and financial performance it should be observed that there are other elements that influence the relationship of the two variables (Mutya and Josephine 2018:03). These indirect variables include factors the size of the firm, capital intensity, developments amongst other, however this study will cover some of these factors other factors that influence the capital structure because capital structure has direct relationship with the performance of the firm.

Shareholders use the financial performance to evaluate their investment decision, financial management goal is to maximise shareholders value, therefore it can be concluded that the financial performance is the results of how effectives the firm manages and allocates it resources thus financial management.

#### 2.4.4 WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE



**Figure 2. 5: Link between Working Capital Management and Financial Performance**

Source: Researcher own compilation

Working capital is the piece of firms capital allocated to finance current or short term investments such as inventory, trade receivables amongst others (Shampa 2015:155). Working capital management is one of the financial management practices that is essential component for the overall financial management approaches to boost the value of the shareholders in the corporate world. WCM is simply the difference between current assets and current liabilities. The financial performance measures which are liquidity and profitability are directly influenced by the working capital management and consequently impact the value of the firm (Iqbal and Zhuquan 2015:231). Its components are current assets and current liabilities. Current assets comprise of account receivables, cash, inventory and other current assets, Current liabilities comprise of account payables, short term loans, and other current assets.

Both the profitability and the liquidity are of importance to the survival of the firm. Liquidity is associated with firms' ability to pay its temporary obligations thus current liabilities. Financial manager has the significant role to keep the optimum level of current assets to its total assets because holding too much current asset has a negative effect on the profitability while on the other hand, having low current assets to total assets has a bad effect as well as it gives rise to low liquidity and can result in a risk of occasions where a firm runs out of inventory (Iqbal and Zhuquan 2015:232).

The study aimed at establishing the effect the working capital management has on the profitability of the firms in developing and emerging economies by (Alvarez, Sensini and Vazquez 2021:32) highlighted a positive relationship each component of working capital has on the financial performance. The study suggests that an improved variable of working capital results in positive performance in respect of return on assets and return on equity. The study by Alvarez, Sensini and Vazquez (2021) becomes more resonant with the current research study as it was conducted in the SOE in a country with a developing economy. The wealth of the shareholders can be created and destroyed through management of working capital as it can reduce the risk and maximise profit when managed appropriately (Ibrahim and Isiaka 2021:242).

In the study by Asaduzzaman and Chowdhury (2014:175), WCM is defined as the management of short-term financing and investment decisions of the enterprise adding that the WCM can be used as a measure of both liquidity and efficiency. This study investigated the effect of WCM on firm profitability in the textiles industry of Bangladesh. It is evident from this study that the financial performance of the organisation can be influenced by many factors, one of those which is WCM. The study concludes that the WCM significantly affects the profitability of the company. Le *et al.* (2018:15) agree by adding that most empirical studies have shown that the impact of WCM is significant and positive. Niresh (2012:23) also regards the WCM as a crucial part in the organisation's financial performance and defines it as simply the ability for an organisation to fund the difference between short-term assets and short-term liabilities.

The study states that the most substantial part in managing WCM is to maintain adequate liquidity to ensure the smooth running of the day-to-day operations. As much as most studies find the WCM significant in relation to financial performance, in contrast, the study by Nthenge and Ringera (2017:22) on the effect of financial management practices on financial performance of small and medium-sized enterprises (SMEs) in Kiambu Town, Kenya showed that the impact of WCM on financial performance is insignificant when considered individually without other financial management practices factors that influence the financial performance of the business.

In respect to WCM and financial performance of a SOE, the study will establish if WCM results growth in total revenue in the company, whether WCM has resulted in growth in net income in the enterprise and if the company has growth in market share as result of effective WCM.

#### **2.4.4.1 ACCOUNT RECEIVABLES AND DEBTORS' COLLECTION PERIOD**

Ibrahim and Isiaka (2021:243) describes account receivables as a transaction where the firm sells good and services to the customer in exchange of a future payment by the customer. Debtors' collection period is the amount of time it takes customers who had bought the good and services on credit to settle their debts.

It is average number of days it takes for a firm to receive the payment from those customers (Abdulazeez *et al.* 2018:52). Account receivables is another general terminology for debtor's collection period. Selling by credit is another investment way which the firms use by lending customers.

It has been evident in many studies that the studies that the shorter the debtor collection period the better as it results in improved financial performance of the firm, further state (Abdulazeez *et al.* 2018:52). The regulation of the credit sales extended to the customer is by means of credit policy which include collection period, sale, and credit analysis. Debtors' collections period is calculated by the average account receivables divided by the net sales then multiply by number of days in a which is normally 365 days (Adamu 2016:33).

In relation to trade receivables and debtors. The study will determine if the SOE review of levels of receivables is done frequently, whether the company does the preparation of inventory budgets regularly, if the review of inventory level is done on a regular basis, and if the company replacement of stock is done frequently.

#### **2.4.4.2 ACCOUNT PAYABLES AND CREDITORS PAYMENT PERIOD**

The amount the firm is obliged to pay over a short period of time is referred to as account payables under current liabilities (Ibrahim and Isiaka 2021:244). The companies like to prolong the payment to the creditors, and creditors on the other hand advocates for their debtors to pay in the short possible period resulting in them giving an early repayment discounts which is advisable for the firms to take and pay in a short period of time in order to get these discounts, but also as it affects the working capital of the enterprise because it determines the size of the financial need for the company (Ibrahim and Isiaka 2021:244). Creditors payment period indicates the average time it takes for the firm to pay its suppliers after certain period of time it bought goods and services on credit (Abdulazeez *et al.* 2018:54). The creditors payment period is calculated by the average number of days' account payable divided by the cost of goods sold then multiplied by 365. The study will establish if the enterprise has a credit policy, if the enterprise is setting up credit guidelines for clients regularly, and whether review of levels of receivables is done frequently.

#### **2.4.4.3 CASH CONVERSION CYCLE**

The length of time in it takes (in days) it takes for the firm to pay its payables and collection of its receivables is referred to as Cash conversion cycle (CCC) (Ibrahim and Isiaka 2021:244). Linh and Mohanlingam (2018:98) posited that cash conversion cycle is one measure used by the organisations to assess how well it is working capital and liquidity well managed. Firms can boost their profitability by reducing the cash conversion cycle, this can be achieved through lessening the time of cash collection period and lengthening the payment of trade payables.

The profitability of the firm might increase even when the policy of cash collect allows the customers to take time to settle the debts, but it is at the expense of liquidity. For the firms to improve the financial performance its vital that the cash conversion cycle is well monitored.

Decisions associated with profit maximisation often have adverse effect on liquidity for instance if the firm's policy allow more length of time for debtors to settle credit sales, it will result in good profitability but puts liquidity at stake in the same time (Mathuva 2015:02).

Bolek (2014) in his study aimed at establishing the relationship between required rate of return on equity, working capital and return on current assets postulated that cash conversion is the measure for liquidity and is related to the working capital. The study concluded that there is positive relationship between working capital and return on current assets which suggests that the working capital management and cash conversion cycle are related to the profitability of the firms. Shampa (2015:157) asserted that management of working capital through monitoring cash conversion cycle enables the company to generate fund internally to finance investments instead of the hectic seeking of the external funds.

#### **2.4.4.4 CASH MANAGEMENT**

Bartlett *et al.* (2014) defines cash management as the management activity by the enterprise to ensure it has sufficient cash to sustain its daily operational activities, financing of the potential continued growth, and able to make unexpected payments while not holding too much excess cash. Holding too much cash results in forgone profit, the company that holds too much cash impedes itself from profit maximisation. It is this reason that cash management is of paramount importance.

The cash management practice is the firm's ability to put management measures in place with the intention of controlling the cash flow of the firm. Mungal (2015) conducted a study aimed at identifying the cash management practices of retail businesses and their impact on the firm's profitability and sustainability at Tongaat area of KwaZulu Natal. The study was a descriptive cross-sectional study, quantitative research paradigm was utilised and a non-probability sampling method targeting 69 businesses in the area was chosen.



The study revealed that drawing up of cash budget is significant system businesses utilise for the effective cash management, 78.3% of business that prepare the cash budget are more viable and sustainable than the ones not drawing up a cash budget.

The current study will establish if the business (SOE) prepares cash budget on regular bases, whether the company determines the target cash balances on regularly, whether the organisation holds cash (for precautionary and operational reasons). The research study will further determine if the organisation has adopted the automation of cash management processes and if cash surplus is invested in marketable securities.

#### **2.4.5 INVESTING DECISIONS AND FINANCIAL PERFORMANCE**

Montgomery (2018:102) states that capital budgeting is another term used for investment decisions, where the investment decisions of money and probable benefits arise from the investment in a period of more than a year. If the return on investment is expected in a period of less than a year it not recognised as capital budgeting but as an income receivable which is falls under WCM. Capital budgeting includes both the raising of long-term funds as well as their utilisation. Goel (2015:201) adds by stating that capital budgeting is long term planning for making and financing proposed capital outlays.

Siziba and Hall (2019) conducted a study intended to examine capital budgeting techniques application, it was a longitudinal study that surveyed 83 research projects conducted about capital budgeting practices across firms in United States of America (USA), United Kingdom (UK), South Africa (RSA), and India for the period from 1966 to 2016. The study reveals that there are six most popular capital budgeting techniques namely (in random sequence), accounting rate of return (ARR), net present value (NPV), payback period (PBP), internal rate of return (IRR), Return on Investment (ROI) and the real option value (ROV). The least used technique of all the identified was the ROV because of its complexity and lack of familiarity, followed by ROI although its application is significantly growing in UK, USA, RSA and India respectively.

In agreement with Siziba and Hall (2019), (Ehrhardt and Brigham 2011:55) identified the following methods for evaluating the investment project, namely the static method (simple) which include Return on Investment (ROI), and the Payback period among others. The second method is the dynamic method which includes Net Present Value (NPV), and the Internal Rate of Return (IRR) among others. The most popular capital budgeting technique practices are NPV, IRR and PBP respectively (Siziba and Hall 2019:02).

The observation by Koroti (2014:03) in his the study on the effect of investing and financing decisions on financial performance of the sugar factories in Kenya, states the term 'Investing' involves many activities with the common goal to utilise the money with the intention of enhancing investor's wealth. He states that the funds that are invested comes from the assets that the company already possesses, borrowed money and saving. Investments can be categorised into real investments and financial investments; real investments constitute tangible assets such as land and building, vehicles, equipment amongst other things. Whereas financial assets are non-tangible ones whose value is as a result of contractual rights, such as fixed deposits, bonds among others. Al-Mutairi, Naser and Saeid (2018) defines capital budgeting as the tool that is used by organisations to in planning how resources should be allocated among investment project, it plays an important role in the feasibility studies of an investment.

When Maiyo (2013:07) conducted a study on the the effects of investment decisions on the profitability of companies quoted at the NSE, he revealed that there is a positive relationship between the investments the company makes with the financial performance (profitability). This signifies that the improved investing decisions in the organisation leads to better financial performance. The study recommended that the companies need to evaluate various investing decisions available to ensure that the one that maximises value is chosen. Every financial decision comes with risk and risk relates to the likelihood for the investment not to yield expected returns.

The study will reveal if the following regarding investing decisions; if the company has cash for long term investments, whether the business invests in non-current assets and if the enterprise utilises non-current assets fully. The study reveals if the business invests without assessing the investment, the business invests in shares on the stock exchange, the business invests in real estate and whether the business reviews investment projects after a certain period.

#### **2.4.5.1 Net Present Value (NPV)**

All the anticipated present and future positive cash flows are defined as the NPV. Discount rate is another popular term for NPV. NPV considers the present and the future inflows and outflows of cash then simply takes the difference between the two cash flows (Chai 2011:12). Positive NPV indicates a return on investment is more than the discounted rate which orders that the decision on investment project greater than should be given further consideration because the projects that gives returns in excess of the opportunity cost, unquestionably enhances more value of the firm, thus growing shareholder wealth (Nyongesa 2017:33).

The benefit of using this capital budgeting measure is it simply to calculate and takes in consideration the time value of money since there is always an inflating rate leading to the money invested losing the value. The study will uncover if the company uses Net Present Value (NPV) to assess the investments.

#### **2.4.5.2 Payback period (PBP)**

PBP is the length of time it takes for the sum of positive cash flows equal to the cost of initial investment or the expected length of time to recover the initial investment (Nyongesa 2017:34). Yator (2018:04) describes the PBP as a length of time lapse afforded a company to gain the stability from the investment, the time value of money is however ignored on this lapsed time. This study seeks to reveal if the company uses Pay Back Period to assess the investments.

#### **2.4.5.3 Accounting rate of return (ARR)**

ARR is outlined as an average of profit after tax divided by the initial cash outlay (Nyongesa 2017:33). Yator (2018:04) describes ARR as simply the average of return where the accounting profit (after tax) is divided by the initial investment capital outlay over an investment project duration to derive a ration that can be expected. It receives same critique as PBP as it also ignore the significant element of time value of money, further states Yator (2018:04).

#### **2.4.5.4 Internal Rate of Return (IRR)**

IRR can be defined as the variation of NPV in a sense that it bids to attain the discount rate that gives a zero NPV (Nyongesa 2017:33). Positive NPV implies the higher return on investment, negative NPV suggest that the actual return is lower. Continuous manipulation of IRR can end up giving rate where NPV is zero.

When calculating the NPV the rate used is already determined but when the rate of return is calculated it uses the new rate that provides a zero NPV, this implies that there it is impossible to determine IRR without having NPV calculated (Yator 2018:03). The study will be disclosing whether the company uses Internal Rate of Return (IRR) to assess the investments.

#### **2.4.6 FINANCING DECISIONS AND FINANCIAL PERFORMANCE**

The financing decisions is one of the significant and crucial decision made by the financial managers relating to the financing-mix of an enterprise. It is concerned with the borrowing and allocation of funds required for the investment decisions (Morellec, Nikolov and Zucchi 2014:21). Keasey, Martinez and Pindado (2015:50) add by stipulating the financing decision involves two sources from where the funds can be raised: using a company's own money, such as share capital, retained earnings or borrowing funds from the outside in the form debenture, loan, bond, etc.

The study by Botta (2019:377) suggests that the financing decision can be explained using two theories. This study identifies the first theory as trade-off theory.

This theory suggests that organisations have an optimal level of leverage which maximises their value, and optimum leverage is achieved by means of the equilibrium point between costs and benefits emanating from alternative financing instruments relating to tax effects leverage, bankruptcy costs, and agency costs due to information asymmetries. The mixture the study is referring to is the finance of investments by means of debt and equity as a combination.

The second theory which is pecking order theory argues that the trade-off theory is irrelevant. It then suggests that the firms do not have to go for optimal financing mix but follow a hierarchy of financing sources rather, internal funds/ retained earnings first, then debts and equity finally because of the asymmetric information about the value of the real value of the enterprise between internal and external investors.

#### **2.4.6.1 SOURCES OF FINANCE**

Almost every business activity requires funds, before the firm can decide to invest in any type of investment it first needs to determine how that investment is going to be financed, thus decide on the source of finance which Mamo, Seychell and Grima (2019:532) defines an effective and efficient management of the finances, and also highlighted there are four occasions where business require finance as follows; firstly when it needs the initial start-up capital , secondly to finance the firm's expansion, thirdly when there is a need for venture capital and for altering of the already existing business financial structure. Only two sources of finance can fund the investment and development of enterprises namely internal sources of finance and external sources of finance further identifies (Mamo, Seychell and Grima 2019:532).

Shrotriya (2019:36) classifies sources of finance as debt and equity. Equity is the source of finance that is perpetual in the firm, fund raised through equity shareholder do not have to be repaid back to the shareholders instead equity shareholders are paid dividends in return, and they become owners of the organization. Contrary to that, debt is repaid back to the lender on certain agreed instalments including the interest (Shrotriya 2019:36). Botta (2019:337) suggests that decisions of choosing sources of finance remains a long-standing issue in the corporate world.

The study will reveal how the enterprise prefers to finance its investments and operations. The research study will show the financing decision practices the firm utilizes, including retained earnings, debt (loan), trade credit, lease and hire purchase. The study will further reveal if the firm finances its investments with external equity financing includes venture capital, private investors, government loans, government subsidies. The research study will reveal whether decisions to finance the firm is based on relationship with the lender, firm's attitude to debt, firm's habitual behaviour to debt and if the firm's financing decisions leads to increased firm value, expansion of the firm and maintain control.

#### **2.4.6.1.1 INTERNAL SOURCES OF FINANCE**

Internal sources of finance are the finances generated inside the firm when they are needed than from outside, Internal sources of finance are mainly used in the small business (Sathakaran, Balendran and Dinesh:46). Internal sources of finances include retained earnings which is significantly the profit retained after dividends pay-out, accumulated depreciation which is the amount of money the firms charge on all fixed assets in order to be able to replace the tangible assets at the end of their economic life, unpaid liabilities and unpaid dividends amongst other internal sources of finance.

##### **i) Advantages of Internal Sources of Finance**

It is at the liberty of the firm which source of finance to use whether they want internal sources of finance or external. Shrotriya (2019:938) when he identified advantages of internal sources of finance his study revealed that funds are already in the firm so there are no costs associated with the procurement of funds.

The second advantage identified in the study was that the internal sources of finance are riskless compared to external sources as the company owns the sources of finance. As the firm own the source of finance there is zero percent probability that it can lose the control or there can be dilution of control. Thus, internal sources of finance are advantageous to the firm in various ways.

## **ii) Disadvantages of Internal Sources of Finance**

The disadvantage of internal sources of finance are more of limitations than disadvantages. Shrotriya (2019:939) identify the first limitation of the internal sources as funds that are only limited to the firm yet there is multiply uses within the firm which these limited funds has to cover meaning, the growth of the company can be limited due to the limited funds.

Shrotriya (2019:939) further identified the second disadvantage limitation for the internal sources of finance as the limited duration of these funds, which he classified as short term or possibly medium-term maximum. The study further suggest that these funds cannot be used for longer duration as they are already allocated needs within the organization.

### **2.4.6.1.2 EXTRENAL SOURCES OF FINANCE**

The sources of finance acquired outside the business are external sources of finance. It helps the firms to flow faster than they could provide they are only limited to the funds generated internal. Sales growth can be the result of funds provided external to make an additional investment in inventory, account receivable and other assets (Sathakaran, Balendran and Dinesh:46).

## **i) Advantages of Internal Sources of Finance (Debts and Equity)**

In situation of debt source of finance, the financial Institutions and bank lending money to the organization do not become owners of the firm or even gain ownership interests. The ownership and control remain with the firm Popoola (2016:30). The borrowed money as an end date of repayment, once the borrowed amount of money is paid back in accordance with the contracts, there are no further obligations towards the lender.

The debt source of finance comes with the meaningful tax advantage because of the interest payment on the loan that are tax deductible. Principal amounts and interests are known and can be used to forecast and plan except in situations where there are variable rates on loans Shrotriya (2019:935).

Coming to equity the major advantage about the equity is that the firm gets funds without incurring the debts, meaning there won't be a need for the firm to repay the amount of money invested but equity shareholders expect future profits in the form of dividends at the repayment of their investments. The investors attain their investment in situations where the business is doing well.

***ii) Disadvantages of External Sources of Finance (Debts and Equity)***

The study by Popoola (2016:30) identifies three disadvantages of external sources of finance, firstly, equity shareholders are subsequently owners of the firm. It means they possess voting right which subsequently result in dilution of control risk, as it is most probably to lose control as equity source of finance is chosen. Secondly, is the risk of exertion of excess control if debt is a source used to finance the firm. Financial institutions including the banks may exert control over how the enterprise operates by unnecessarily interfere with the firm's decision making if a huge amount of loan is borrowed.

Thirdly, it is a risk associated with the legal obligation of pay back the loan amount including interest and dividends to the equity shareholder. This increases the risk for the bankruptcy of the firm in situations where it cannot meet these binding obligations. Shrotriya (2019:935) in agreement with the disadvantages identified by The study by Popoola (2016:30) further suggests the fourth disadvantage of utilizing external sources is the procurement costs associated with getting the funding.

**2.4.7 CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE**

Nyongesa (2017:128) define the capital structure as the propositional relationship between the company's equity capital and the debt capital used for financing the firm. Capital structure is utilised by firms to fund it business operational activities, investment, or expansion amongst other things. The empirical wok of capital structure was developed by Modiglaini and Miler in 1958 with the intention to develop testable theories on how enterprises determine their capital structure (Chipeta and McClelland 2018:15).



Modigliani and Miler (1958) cited in Narmandakh (2014:02) suggested that in a perfect market world i.e. (where there are no taxes, where there is credible and perfect disclosure of all the information and no transaction cost) the value of the firm is independent and not influenced by the capital structure whether it is equity or debt financed, since the debt capital and equity capital are the perfect alternatives for each other.

Sibindi (2017:15) concurred with Narmandakh (2014:02) and further posit by stating the perfect market in only an ideal world that does not exist, realistically firms are faced with the risk of being bankruptcy and paying of taxes and other factors assumed to be perfect in the ideal market world. This makes the value of the firm not to be independent from the capital structure as suggested by the perfect market. Popoola (2016:07) suggests that appropriate determination of the capital structure is one of the crucial decisions in financial management and further defined it as a relationship between the debt, equity, and preference share capital.

The study will reveal if the finance staff members at finance sections of SOE prefer the organisation rely on internal funds, to expand the firm, if they suggest the firm gives a percentage of ownership. The study will further reveal if risk-taking prosperities has an impact in the financing choice of the firm, whether the business has easy access to bank loans, if the business uses internally generated cash sources and borrowed funds, if the business uses borrowed funds only and whether the business sets capital structure based on the theory.

Zunckel (2018:09) posited that capital structure refers to the liabilities and equity section of the balance sheet as it represents to the mixture of debt and equity which is known as leverage. Zunckel (2018:09) further differentiates equity and debt by opining that debt is when funds are borrowed from the external sources with prescribed term and conditions of paying back the amount owed until it is settled in full whereas equity is the finance that can either be through internal or external source of finance by means of retained earnings or by selling porting of the firm to the equity shareholders resulting in them being the owners of the firm. The debt referred to includes both long term and short-term debts.

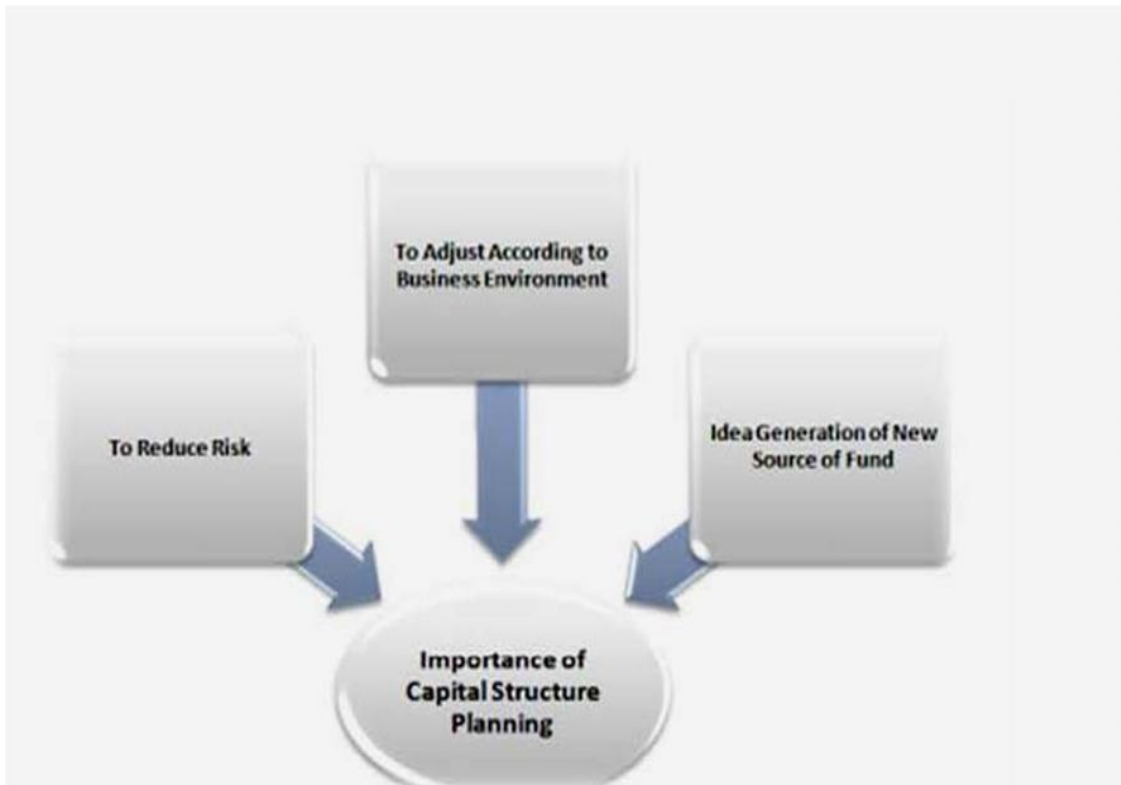
Miller (1958) cited in Narmandakh (2014:03) further developed the capital structure theory imperfect market point of view taking into consideration the debt, they realized that in deciding the capital structure, debts leads to tax benefit as interest paid on the debts results in deductible expense which signifies that as the firm continues to take more debt of financing the firm, the value of the firm increases while the debts increase and the tax benefit increase. However, this does not mean that financing a firm with debt only or more debt result in optimum capital structure.

Gitman, Juchau and Flanagan (2015:504) capital structure is a mixture of long-term debt and equity capital, and further emphasized the importance of financial managers to determine the optimum capital structure to maximise the value of the shareholders. Determining optimum capital structure is of importance as mitigates the risks and benefit and ensure the share price of the firm is increasing (Zunckel 2018:10).

#### **2.4.7.1 Importance of Capital Structure**

Sindhu and Kumar (2014:16) postulated that the primary objective of any firm is to have a mixture of sources of finance allocated and utilized in the way that result in a maximized company's market share price, it influences the risks and returns of the investors thus it is a very important managerial decision to an optimum capital structure. In times when the firm needs to promote itself and subsequently when there is a necessity to raise additional funds for new investment projects the firm ought to plan it capital structure.

The firms involve capital structure decisions because whenever it is required to raise finance it is always faced with the deciding on the amount of funds that needs to be raised and the sources of finance that week be less costly to the company. Amongst these decisions is the involvement of an analysis of the current already existing capital structure, and the factors governing the decision at present (Thimmaiah 2015:127).



**Figure 2. 6: Illustration of Importance of Capital Structure**

Source: Popoola (2016:24)

#### **2.4.7.2 Determinants of Capital Structure**

Given the definitions of the capital structure, many prior studies have attempted to investigate the determinants of the capitals structure. These studies investigate to what extent does these determinants influence the capital structure decisions. Amongst the studies that made such an attempt is a study by (Narmandakh 2014:02) which identified the determinants of the capital structure to be profitability, asset tangibility, firm size amongst others discussed below.

Chipeta and Deressa (2016:649) in their study aimed at examining the effects of firm level dynamics of capital structure in 12 Sub-Saharan African countries, country specific factors were included by carrying out of panel data estimate techniques on 412 set of firms for a period between 2008 – 2012.

The country specific factors investigated were rule of law, control of corruption, contract enforcement days, cost of enforcement, legal rights index, stock market capitalisation of GDP, real GSP, private sector credit to GDP and real interest rates

while the firm level determinants of capital structure were firm size, profitability, growth, tangibility of assets, risks, and tax. The study revealed a positive and significant relationship between the size of the firm and leverage, in half of the sampled countries the study covered. The profitability was found to be have a negative but statistically significant in 11 of 12 countries the study covered, confirming the pecking order financing theory in consistent with the study by (Narmandakh 2014).

There was a mixture of results regarding the tangibility of assets across the countries, with RSA showing significant and positive correlation between asset tangibility and leverage. Thus, it is inverse to the affirmations that organisations with high collateral value of assets have high debt ratios.

### ***1) Size***

The natural logarithms of sales and natural logarithms of assets are the usual measures of the firm size (Narmandakh 2014:03). The large firms are perceived to be less likely to become bankruptcy and thus attract more debts, as per the tradeoff theory, firms' debt ratio relationship with the size of the firm should be positive as large firms have less variance in earnings and tend to be more diversified which enables them tolerance of a debt ratio (Alipour, Mohammadi and Derakhshan 2015:58). Mishra (2018:167) opine that nature and the size of the firm play important role in influencing the capital structure, and further states the public enterprises in India employ debt more than private firm because of the regulatory of earning and stability.

Contrary to the trade-off theory expectations regarding the size of the firm where large firms are attracting debt lenders, pecking order theory suggests that as firm grows and makes more profit it is expected to have generated more internal sources of finance and will then not seek resources from the debt market but small firms capital structure might be highly geared compared to the large firms (Sibindi 2017:35).

To summarise, the empirical evidence shows that large enterprises are more leaning to debt as opposed to the small organisations. The study will reveal if size of the firm is a determinant for a SOE.

### ***ii) Asset Tangibility***

The longer the company operates and grows, the more and more tangible assets it acquires, the tangible assets refer to the assets like property, plant and equipment, goodwill is the example of intangible asset. The study by Sibindi (2017:36) suggests that tangible assets are easier for the debt lenders to value resulting in making it easy to lend the firm a debt as the tangible assets are used as a collateral and guaranty that the firm will repay the debt. (Narmandakh 2014:03) suggests that firm with higher levels of tangibles assets are more likely to use debt and render the assets as security as per the trade-off theory.

### ***iii) Profitability***

From the pecking order point of view, it is believed that the firms employ more and more internal sources of finance first at the expense of the equity and debt are more profitable, the availability of internal resources is associated with the profitability of the firm. This makes the leverage relationship with profitability to be negative meaning the firms finance mainly by debt are less profitable than those financed by internal funds this supported by (Sibindi 2017:38). Contrarily trade-off theory narrative argues by asserting that the more profitable firm use more debt is as they benefit from the tax shield of interest paid to the debt (Narmandakh 2014:03).

Thus, suggesting there is a positive relationship between debt financing and profitability. The study reveals if profitability is a determinant for capital structure of a SOE.

### ***iv) Growth***

Frank (2009) cited in Sibindi (2017:39) asserted that growth of the firm is associated with increased costs of financial distress, intensifies debt related agency problems and reducing the free cashflow problems. Therefore, the prediction by the trade-off theory is that the growth reduce leverage making the relation to be negative. According to Mishra (2018:167) there are two reason growth opportunity and leverage relationship is negative.

First reason is in accordance with the trade-off theory, the cost of financial distress increase with the growth forcing the firm's financial managers to reduce debt in their capital structure. Second reason is relating to the presence of the information asymmetries leading the firm to issue more equity than debt when overvaluation leads to higher expected growth.

Zurigat (2009:56) postulated that there is a positive relationship between the growth opportunities and firm's leverage according to pecking order theory. The reason for the positive relationship is because it is less likely that the firm finance positive NPV on its future investment projects and might have to require the external funds where pecking order requires that the debt is taken after internal funds are exhausted before the equity. The study reveals if growth/ age is a determinant for capital structure of a SOE.

#### **v) Debt Tax Shield**

Sibindi (2017:40) stated that the first major frictions considered for the optimal capital ratio were financial distress and taxes. Sibindi (2017:40) also puts forward that because dividends are not tax deductible, but interest paid on debt is, substituting the equity by debt enable the company to bypass the payment to the government in the form of tax through tax deductible interest on debt making greater returns to the investors. Thus, according to trade-off theory predicts positive relationship between the firm debt tax shield and leverage.

#### **vi) Risk**

In the parlance of finance, risk is measured in terms of the probability for occurrence of loss, causing the destruction in the earnings of the company. There is negative prediction between risk and leverage according to the trade-off theory. The trade theory suggests that the firms with high levels of volatility in earning prospects or cash flows should avoid debt capital financing. The perspective of this view is that highly volatile cash flow firms are at the risk of the financial distress.

According to Ramli, Latan and Solovida (2019:03) they postulate that high volatility in firms carries so much risk of bankruptcy in a sense that the earning might drop to the extent where the firm cannot fulfil its debt servicing obligation and thus find debt unattractive.

Positive relationship between leverage and risk is consistent with pecking order theory contrary to the trade-off. This is based on the premised notion that cash volatility is associated with earnings, as such, firms retained earning becomes the first constraint source of finance. Therefore, the firm must seek funding from the external markets starting with debt market as pecking orders' theory directive. Alipour, Mohammadi and Derakhshan (2015:62) in synch with this, postulate the positive relationship is because the riskier the firm becomes, the more probability of it opting of debt capital.

#### **2.4.7.3 Cost of Capital**

Cost of capital is used as a measure of worth of investment by business concern and, because of that, is regarded as the investment decision integral part (Popoola 2016:12). It determines the present value for the future cash flows, thus, used as a discount rate of return. The aforementioned author further categorises the cost of capital as the rate the firm requires from an investment in order to increase the value of the firm in the marketplace and maximise the value of the shareholders. The capital of the firm consists of debts and retained earnings. When different sources of finance are used in the firm, it is fundamental that financial managers take well informed decisions regarding cost of capital because it is closely related to the firm earning capacity and the value of the firm ultimately.

In all components of costs of capital there is common feature, which is that investors who put their money in the firm are expecting the returns, which is in line with the firms objectives of maximising the value of shareholders (Brigham, Gapenski and Daves 2004:296). Popoola (2016:13), postulated few assumptions of the cost of capital, first is that the cost of capital is no cost as such but simply a hurdle rate. Second assumption put forward is that it is a minimum rate of return and lastly it constitutes of three risks elements namely zero risk level, business risk and financial risk.

The following equation is used to measure the cost of capital:

$$K = r_j + b + f$$

Where:

K = Cost of capital

$r_j$  = The riskless cost of finance

b = The business risk premium

f = The financial risk premium

Source: Paramasivan and Subramanian (2009:66)

## **2.5 TOOLS FOR EVALUATION OF FINANCIAL PERFORMANCE**

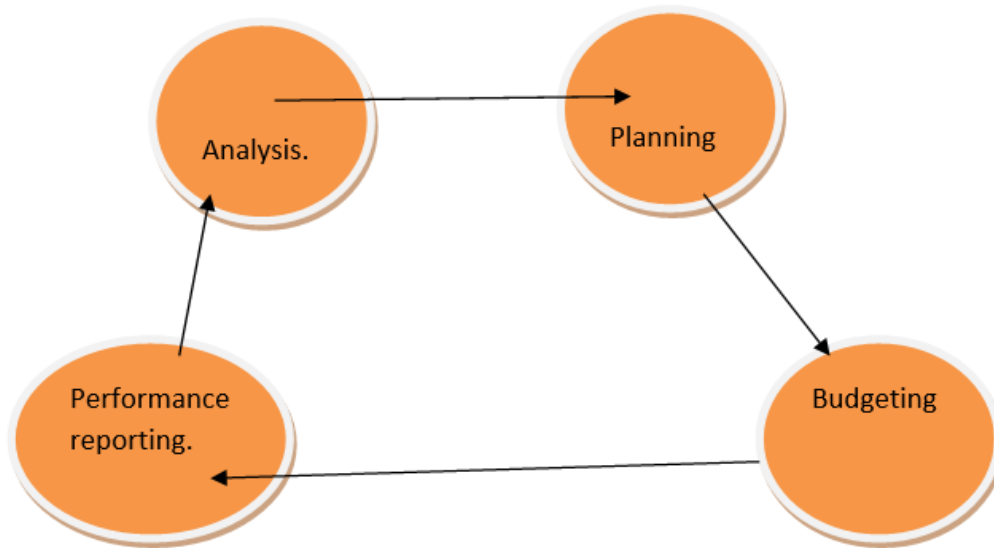
### **2.5.1 Financial planning and control**

Brigham and Houston (2017:560) postulated that financial planning predicts the overall financial performance of a business and alerts management of the funds required, when they will be required and how much will be needed. The primary financial planning activities are income forecasting, cash flow forecasting, determining financial resource requirements, and profit and dividend planning.

Geeta and Nagasivanand (2021:2617) defines the financial planning as the result financial statements analysis, and further suggests, financial planning is a set of activities as follows planning, budgeting, performance reporting and analysis bases on the reports. A number of financial statements are needed to perform the analysis.

Financial statements comprise of statement of profit or loss and other comprehensive income, statement of financial position, cash flow statement, statement of changes in equity and notes to financial statements, financial ratios are the appropriate tool for performing such comparisons. The purpose of studying the figures in the financial statements is to make the comparison with other firms' financial statements.





**Figure 2. 7: Illustration of financial performance and control**

**Source:** Geeta and Nagasivanand (2021:2617)

### **2.5.2 Financial Analysis**

Nguyen (2011:71) reveals that financial analysis is the process of evaluating the performance of a business and other projects using tools such as ratio analysis, payback period, net present value, and internal rate of return. Investment in projects requires risk analysis and sensitivity analysis.

Prawirodipoero, Rahadi and Hidayat (2019:396) in their study aimed investigating the significance and influence of financial analysis tools as a measure of financial performance of the small, micro, and medium enterprises of Indonesia revealed that financial analysis ratios namely liquidity, efficiency, profitability, and solvency ratios have significant impact on the firm's financial performance.

### **2.6 CONCLUSION**

Empirical and theoretical studies regarding the financial management practices and financial performance have been explored in this chapter. The chapter deliberated Investment, financing, and capital structure founding theories i.e., financial theory of investments, contingency theory, trade-off theory and pecking order theory explaining capital structure of the firm. The following chapter will discuss the research methodology and how the data is going to be collected, analysed and interpreted.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

The previous chapter deliberated on the literature review, illustrating the financial management practices and the hypotheses concerning the conception. The definitions and the importance of financial management practices towards improved financial performance were described. The tools SOE can use to achieve improved financial performance were also discussed in the previous chapter.

The present chapter is going to describe the methodology of the study. Amongst other things used for describing the methodology is target population, sampling method, sample size, data collection procedure. Reliability and validity instrument related issues are also covered in the current chapter. The presentation of ethical consideration. The research study seeks to investigate how the financial management practices effect the financial performance of a state-owned enterprise in Johannesburg.

#### **3.2 RESEARCH DESIGN**

The research design is described as the conditions arrangements for the data collection and analysis in a way that seeks to put together the relevancy of the research purpose with the economy procedure (Kothari 2004:31).

Mayer (2015:24) posited that the role of the research design is to be used by a researcher as a strategy to link the research questions and empirical data amongst others. Research designs comprises of the combination of collection and analysis of data proceedings for the research study to achieve its goal and objectives by having all the research questions answered.

It is the nature of the study that dictates the research design appropriate for the research study. The research design employed in this study is quantitative and cross-sectional as the study investigates the effects of financial management practices on financial performance in a state-owned enterprise.

The quantitative research design is where collection and displaying of data is interpreted in numerical form using questionnaires and data analysis procedure which uses graphs and forming statistical variables to generate numerical data, which is then analysed and interpreted (Saunders *et al.* 2015:414).

### **3.2.1 QUANTITATIVE AND QUALITATIVE RESEARCH METHODOLOGY**

Quantitative design constitute of theory analysis where data collection is based on a certain narrow hypotheses and respondents either repudiate or support the theory (Creswel 2013:94). The question of whether the data collected will be interpreted in numbers or in words influences the way data is collected, recorded and analysed (Walliman 2010:71). The quantitative research design reduces results to numbers and qualitative study is in words, where participants write about their emotions, feelings, experiences amongst other things. In the quantitative research study, the best way for tackling of the research problem is realised through analysing the factor influencing the results.

Therefore, reviewing of the literature is of paramount importance in the incorporation and exploring of the research questions that eventually needs to be answered (Creswell 2002:76). The advantage for employing quantitative over qualitative research design is that, in the quantitative, the result are significant and fair whereas in qualitative the result can be biased (Anderson 2006). However, the researcher is part of data collection when the qualitative research design is employed distinct from quantitative research design.

Saunders *et al.* (2015:480) asserted that qualitative research design relates to the observation of actions, approaches, and experience of individuals, which does not contain numbers and is inductive. In this study, quantitative design was found suitable and used to obtain data needed to analyse and interpret the effect the financial management has on the financial performance in a SOE.

### **3.2.2 Research Approach**

There are two main categories of research approach, which are notably deductive (fixed and collects quantitative data) and inductive (flexible and associated with qualitative data) (Kudanga 2018). These two main categories of deductive reasoning include two essentially different philosophical and investigative philosophies.

The deductive method is a theory-testing procedure that starts with an accepted theory or generalization and aims to determine whether it holds true in particular situations through observation. It is the strategy for conducting research that is typically connected with a positivist, scientific approach that aims to build a new hypothesis. The inductive approach is a method for developing theories that begins with direct observations of particular occurrences and aims to draw generalizations about the phenomenon being studied. It aims to confirm or refute an existing theory and is better suited to a phenomenological research philosophy (Krippendorff 2013: 485). This study used a questionnaire to generalise the results.

### **3.3 POPULATION, SAMPLE SIZE AND SAMPLING TECHNIQUE**

Creswell *et al.* (2007:147) opined that the characterisation of the target population is the sampling divisions substantial to the research question. According to Welman, Kruger and Mitchell (2005:126) the target population is the group of people whom in the perfect world, the researcher possibly intend to generalise the findings of the research study to. The target population for this study was 69 staff members working at different divisions of finance at an SOE in Johannesburg.

### **3.4 SAMPLING METHOD**

Sample is the subsection of the certain population consisting of prearranged numbers (Creswell *et al.* 2007:147). Black (2013:223) identified three advantages concerning the use of sample over the population when conducting a research study. The first advantage is cost efficiency because sample is smaller than the population. The second advantage is time efficiency, there is a lot of time spared when using the sample than population. The third advantage is the extent of the investigation the study seeks to undertake given sufficient resources.

There are two categories of sampling designs that can be used in a research study, it can either be a probability (random) or non-probability (non-random) sample design (Kothari 2004:15). The probability sampling enables the random representation of every sample in the population, granting every respondent from the population an equal opportunity of being chosen. Cluster sampling, simple random sampling, stratified sampling, and systematic sampling are the four methods used in the probability sampling (Leedy and Ormrod 2016:177).

Black (2013:233) stated that in non-probability sampling, there is a mechanism used in selection of the sampling elements in the population, there is no consideration for random selection. Black further puts forward the methods used in the non-random sampling are judgement sampling, convenience sampling, snowball sampling and quota sampling. Table 3.1 is the presentation of methods used in the non-probability sampling; these methods are utilised for different situations.

**TABLE 3. 1 Non-Probability Sampling Methods**

<p style="text-align: center;"><b>Judgement Sampling</b></p>	<p>In this sampling method, the researcher uses their judgmental choice to choose sample respondents in the best interest of having research questions answered. This may be due to population not having knowledge, experience, or expertise to meaningfully contribute to the research study. Judgment Sampling method is commonly used in the case study research.</p>
<p style="text-align: center;"><b>Convenience Sampling</b></p>	<p>The choosing of sample respondents is based on their availability (convenience).</p>
<p style="text-align: center;"><b>Snowball Sampling</b></p>	<p>This method allows respondents to partake in the research than being selected. It is appropriate in cases where detecting respondents of the desired population is problematic.</p>

**Table 3. 2 Continued**

<b>Quota Sampling</b>	The method is usually used for structured interviews and is completely non-random. Depending on the preface that the sample will signify the populations as the changeability in the sample for various portion factors is equivalent to that in the population.
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**Source:** Saunders (2012:69)

For this study, a sample size of 69 staff members of an SOE was selected using non-probability, convenience sampling as the staff members were selected were willingly available and keen to partake in the research study. Creswel (2013:145) stated that sampling units from the population can be categorised in gender, pay range, position, or profession. In this research study, the sample units were classified in terms of the department, and the knowledge of the role financial management plays in putting an SOE at a better position. As shown in table 3.2, the sample for this study was 69 staff members.

**TABLE 3. 3: Sample size**

<b>Sections</b>	<b>Target population</b>	<b>Sample size</b>
Budget	10	10
Rail Network and statutory reporting	10	10
CFO and TGC office	14	14
Capital development and treasury	5	5
Operational and Support Costing	5	5
Fixed assets and corporate support	5	5
Revenue and credit management	10	10
Enterprise-wide business support	10	10
<b>GRAND TOTAL</b>	<b>69</b>	<b>69</b>

### **3.5 PRIMARY DATA COLLECTION**

In the quantitative research model, there is plenty methods available for data collection, the research objectives should serve as a guidance in choosing the appropriately suitable method. The most suitable method used in this study is survey questionnaires. The following are advantages and disadvantages associated with self-completion questionnaire, identified by (Bryman and Bell 2014:192).

#### **3.5.1 Advantages of self-completion questionnaires**

- Cost effective to administer the questionnaires compared to interviews
- The administration is quicker,
- Convenient for the respondents
- Respondents are not subjected to inconsistencies in interviewer may subject them to.

#### **3.5.2 Disadvantage of self-completion questionnaires**

- In case where there is clarification or assistance needed in completing the questionnaire there is no one to assist the respondent.
- Rare feasibility of long questionnaires, and
- Limited knowledge of the respondents may not allow them to fully complete the questionnaire

#### **3.5.3 The Questionnaire**

According to Kumar (2018:141) questionnaire is a list inscribed questions that are completed by respondents. Appendix A represents the questionnaire used in this study. Questionnaire is the primary tool utilised in the study for data collection.

##### **3.5.3.1 Questionnaire Development and Layout**

The research questionnaire for this study constitutes of five sections with 54 questions aimed at answering the research questions. The following aspect were explored in these five sections relating to the study objectives.

The study is constructed on the following objectives: It seeks to assess the effects of working capital management on the financial performance, to reveal how investment decisions contribute to the improved financial performance, to ascertain the effectiveness of financing decisions on financial performance and to explore factors influencing capital structure and how capital structure impact the financial performance of a state-owned enterprise in Johannesburg. The five sections covered mentioned objectives.

Section A: The focus in this section was on the demographic data of the respondent staff at finance divisions, the education level, age, race, and experience were included. The inclusion of these factors was for determining whether the experience and managerial qualities possessed influence the financial performance of the enterprise.

Section B: The section focused on working capital management practices and how they influence the financial performance.

Cash management, receivable management and inventory management practices were used to measure the significance and impact they have towards financial performance. The inclusion of these practices was to establish their effect on the performance of the enterprise.

Section C: This section focused on long term investment decision known as capital budgeting, as short-term decision making was already covered in section B. The capital budgeting practices include net present value, payback period, internal rate of return, accounting rate of return amongst other. The inclusion of this section was to ascertain how investing decision impacts the financial performance of the SOE.

Section D: The focus on this section was on financing decisions, it deliberates on how the enterprise chose to finance its operations and investments. Financing decisions is one of the financial management practices, thus inclusion of this section in the questionnaire aims at establishing the significance of financing decision on financial performance.



Section E: There is a link between section D and section E, section E focuses mainly on the capital structure and its theories which significantly has direct impact on the financial performance of the firm. The understanding of how cost of capital impacts the financial performance is the reason this section was included.

The questionnaire is made up of the close ended questions. The questions comprised of multiple choice, likert-scale, and dichotomous questions.

According to Creswell *et al.* (2007:161) close ended questions give the respondents a range of options to select an answer. Analysing information acquired in these types of questions is uncomplicated and simpler. Story and Tait (2019:195) identified the following advantages and disadvantages associated with closed ended questions.

### **3.5.3.2 Covering Letter**

The questionnaire was accompanied by the covering letter. The covering letter aimed at providing the respondent with the nature of the study, the background, context, and confidentiality aspect concerning the research study. The anonymity was assured to the respondents, as their participation is solely used for the study.

### **3.5.4 Pilot Study**

According to Saunders, Lewis and Thornhill (2009:450) the pilot study is intended to test the questionnaire methods of distribution and collection, design, comprehension of the question (wording).

This reduces the challenges respondents may face when it comes to the actual data collection. The pilot study is even more crucial when data is collected through self-completion questionnaires (Bryman and Bell 2014:210).

The questionnaire for this study was only finalised after the pilot study was conducted. The conditions which pilot study and main study was conducted are the same. This signifies that the respondents who took part in pilot study held same attributes with the target population of the study, nevertheless they were not involved in the sample population. The pilot study was conducted to verify if there was a need for additional questions, eliminations, or modifications in the questionnaire. The following points represent the importance of conducting a pilot study.

- To identify the flaws and to establishing of the protocol feasibility of the study
- To verify if the questionnaire instrument(s) ask the questions intended and whether validated selected tool is appropriate for the target population.
- To test coding of items, data entry, suitability of the statistical tests.
- To test if collection of data using the selected technique is suitable for the study. (self-completed questionnaire or interview).
- For testing of process of data collection. The willingness of the respondents to participate in the study, time taken to get the response.

#### **3.5.4.1 Selection of the participants for the pilot study**

The total number of participants for the pilot study was six DUT academic staff members under the faculty of accounting and informatics. Due to the busy schedule of the pilot study respondents, only five managed to be part of the study.

According to Hassan, Schattner and Mazza (2006:70) the pilot study is conducted to test the questionnaire for the appropriateness, comprehensible and that questions are categorically defined, understood clearly by the respondents and presented in a consistent manner. Pilot study participants were not included in the main study.

#### **3.5.4.2 Implementation of the pilot study**

The one and only method used for delivering and collection of pilot study was done through the electronic mails only due to COVID 19 restricts, delivering questionnaires physical was going to be problematic. As this method is the only method available for testing the distribution and collecting questionnaire the following measure were put in place to get responses from the participates that did not respond timely.

There was a challenge of respondents not responding timely or indicating receipt of the email. In this situation the researcher was sending the follow up email after a week, when the challenge persisted, the researcher called the participants to check if the mail was received and if the mail sent by the researcher did not go to junk mails.

#### **3.5.4.3 Period allocated for responses during the pilot study**

Two week was time found to be suitable and allocated for delivering and collection of questionnaires. This time is believed to be sufficient for respondents to provide reasonable responses for the pilot study. Six participants were invited to contribute to the pilot study, five responded.

#### **3.5.4.4 Feedback from the respondents**

- Participants indicated the good understanding of the questionnaire without any ambiguity, however there were statements that needed to be removed.
- Completion of the questionnaire was not consuming a lot of time
- There was no biasness in the questionnaire

#### **3.5.4.5 Changes made**

- Correction of typographical errors.
- There is a participant that suggested that the 'neutral' column be removed to have sound research; it was indeed removed.
- Certain participants pointed that some question ranges were too broad. As advised, the ranges were adjusted appropriately.
- Some participants suggested there should a constant term referring that refers to a company, so the terms like firm, organisation, enterprise etc were removed as the company was the term used.

#### **3.5.5 Data Collection Procedure**

The collection of data commenced after the approval for conducting a study was received from Durban University of Technology (DUT), Research Committee for Faculty of Accounting and Informatics. According to Kumar (2018:140) there is plenty ways which questionnaire can be administered including mailing of questionnaire, collection and public places administration.

The methods used regularly for data collection from sampled respondents in a target population are postal surveys, group administration, face-to-face surveys, and telephonic surveys (Creswell *et al.* 2007:157). A researcher distributed a total number of 69 questionnaires. The questionnaire was accompanied by the letter of information that assures the confidentiality, anonymity and explains the essence of the research study. The questionnaires were mailed to the respondents and the responses were expected in a period of three weeks on a certain agreed date. Questions asked by respondents were answered by the researcher.

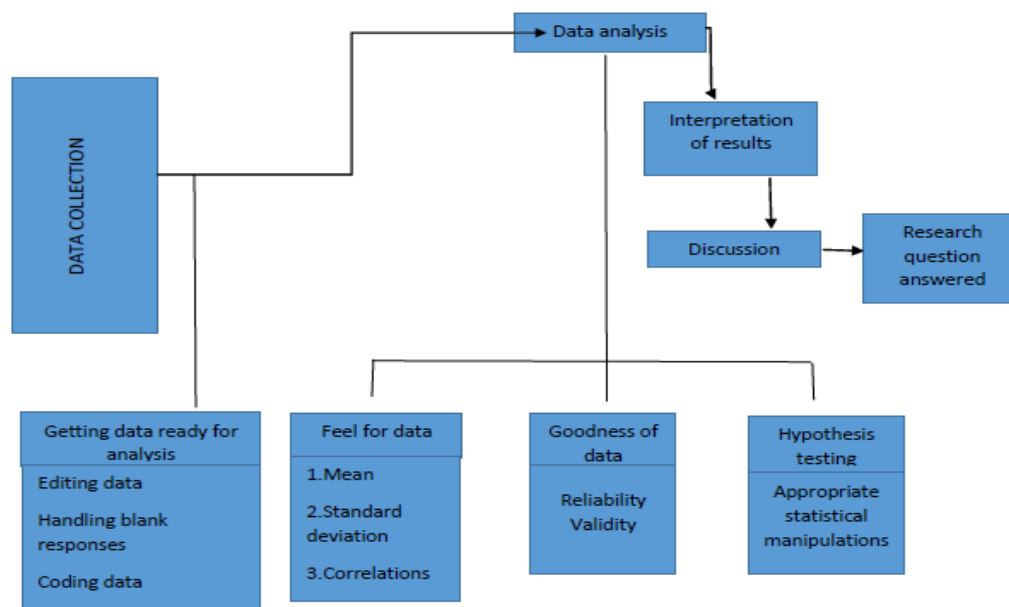
### 3.5.5.1 Data Collection Preparation

The coding of data commenced as soon as questionnaires were received.

### 3.5.5.2 Data Entry

Microsoft Excel spreadsheets were utilised to capture the data, it contained in columns that consist of question responses/ variables. The data entry was thereafter undertaken by means of Statistical Package for Social Sciences (SPSS) (version 27<sup>®</sup>) computer software program for data analysis purposes.

## 3.6 DATA ANALYSIS



**Figure 3. 1: Data Analysis Process**

Source: Adapted from (Israel 2009:49)

Statistic goes hand in hand with the data analysis. According to Simpson (2015:311) data analysis refers to summarising and interpretation of information collected by the researcher and it remains important regardless of the research design. Simpson (2015:312) defines statistics as a mathematical formulae utilised for organising and interpretation of information collected through the variables.

The said author further identifies the two general categories of the statistics as descriptive and inferential.

### **3.6.1 Descriptive**

The study employed descriptive statistics analysis. Leedy and Ormrod (2016:235), characterised descriptive statistics as a determination of how closely intercorrelated variables within data are, how the data looks like, and the degree of the how huge data is.

Descriptive statistical analysis includes the utilisation of statistics elements in the form of the mean, frequencies, and standard deviation, these statistics components provide meaningful descriptive information about the data collected (Sekaran and Bougie 2019:436).

The following methods of descriptive statistics used in the study:

#### **3.6.1.1 Frequency Tables**

This analysis approach was used for summarising distinct variables that were grouped into categories reflective of the research objectives. Percentage table is another term used for frequency tables. The percentage table represents a ratio which reflects how participants chose respond to questions in a certain way by means of a percentage (Webb 2012:227).

#### **3.6.1.2 Percentage Graphs**

The research study made use of variety of phrase for analysis of the data. Amongst the graphs that were used is bar graphs, clustered bars, and pie charts in the bid to analyse biographic shapes of respondents. The biographic information outlines the firm's financial management practices and factors influencing the capital structure on how it impacts the financial performance.

### **3.6 VALIDITY AND RELIABILITY**

The validity and reliability concepts are introduced in the sections below. The following section presents the definitions of the concepts, and how they are applied in the research study.

#### **3.7.1 Validity**

Validity is conceptualised as the extent in which the investigation the research study seeks to accomplish measures what it intends to measure (Cooper, Schindler and Sun 2006:289). The high degree of internal and external validity becomes most significant factors in assessing the trustworthiness of the results (Creswel 2013:151).

The questionnaire was aligned to the research objective for validity to be realised. Klenke (2008:57) classified validity into three categories namely concurrent and predictive validity, face validity and construct validity.

- Concurrent and predictive validity – This validity technique requires the research study results to be weigh up against available greatest valid measure and commands that the available measure confirms theoretical hypotheses.
- Face validity – It is the validity method where it measures the degree which questions bring about sense, it also entails that the measure comprises every element of variables.
- Construct validity – The measure used in this validity technique can be valid for one group or population but not the other.

The pilot study was used to test questionnaire statements if they were understandable. Improvements were made as per pilot study report. Therefore, the face validity was applied by ensuring that the questionnaire statements were based on established theory or findings of previous studies, and the questions were carefully and precisely worded.

### **3.7.2 Reliability**

Saunders *et al.* (2015:192) postulated that reliability are means used to measure the degree of consistency in findings from data collection methods, it reveals if findings are reiterated or duplicated from other research studies. In concurrence Klenke (2008:57) posited that in a research study, reliability refers to the production of similar results from a tests in measured in consistent circumstances.

Reliability entails giving respondents statement or questions and the answer is similar from different respondents. This refers to the extent which subsequent test assessment administrations would present similar results and serves as a consistency measure. Reliability of the study is ensured by using Cronbach's Coefficient Alpha.

### **3.6 ETHICAL CONSIDERATION**

Decisions made were in line with the moral rights model, taking into consideration the society rights outlined in the South African Constitution. Process associated with applying for ethical clearance differs from one institution to another (Ramrathan, Le Grange and Shawa 2017:433). Ramrathan, Le Grange and Shawa (2017:433) further suggests that no research project can be carried out without obtaining ethical clearance.

In the Faculty of Accounting and Informatics, the ethical requirements were adhered to, the acceptable behaviours during the research study were made clear. Part of the significant ethical behaviour was that the researcher must obtain a letter of permission to conduct a study in authorised person from the organisation they might to, it is referred to as a 'gatekeeper's letter. Protection of Personal Information Act (POPIA) is the act adopted by DUT which reigns over the handling of the information extracted from participants.

The research study entailed the participation of only human being, there was minimal risks associated with environment, organisation, or animals. The collection and dissemination of data was done in a manner that safeguarded the raw data confidentiality; participants' identity was protected. The material used for data collection was presented in English with the clause allowing further explanation in language of preference by the respondents.

Furthermore, all the material used in the research study will be stored for a period of five years and securely gets destroyed at the end of the allocated period.

During the research study, the rights of respondents were of paramount importance. The consideration of compassion, integrity, fairness, anonymity, consent, privacy, and purpose of the research study were taken into account at every stage of the study.

The treatment of all participants with respect by the researcher was the ethical obligation. The treatment of participants was not based on race, gender, culture, and there was no biasness. The permission to conduct a research study was obtained from Faculty of Research Ethics Committee (FREC). The way questionnaire was designed allowed confidentiality. The DATA collected in this study will be stored according to DUT data storage policy.

### **3.7 CONCLUSION**

The research methodology applied in the study was outlined in this chapter. The study is based on investigating the effects of financial management practices on financial performance of a state-owned enterprise. Questionnaire is the instrument used for data collection; it was sent to respondents through mail together with consent letter for the acknowledgement of respondents' willingness to partake in the research study. The chapter describes the research design applied in the study and further identified the target population. The questionnaire design and administration outlined. The validity and reliability were ensured through the pilot study before the questionnaire was finalised. The following chapter will present, interpret, and discuss the empirical results.



## CHAPTER FOUR

### DATA ANALYSIS AND INTERPRETATION OF RESULTS

#### 4.1 INTRODUCTION

This chapter presents the results obtained from a questionnaire distributed to employees of an SOE on the effects financial management has on the financial performance of the firm. Data were distributed to 69 employees, and 51 employees managed to returned which constitute a response rate of 73.9%. The data collected from the responses were analysed with SPSS (version 27<sup>®</sup>) in line with the research objectives.

#### 4.2 SOCIAL DEMOGRAPHIC CHARACTERISTICS

This section details the descriptive statistics obtained from social demographic characteristics of the respondents. Descriptive statistics are methods used in describing the characteristics of the biographical information of the respondents based on the research study (Gupta, Guha and Krishnaswami 2013:31). Section A of the research questionnaire presents the biographic information, from questions 1, 2, 3, 4, 5 and 6. The biographic information include respondents' gender, nationality, age group, level of education, years of service in the company and departments where respondents are working.

##### 4.2.1 Gender of respondents

Shown in Table 4.1 is the percentage responses by respondents per gender. The results in Table 4.1 presents that the respondent's demographics were almost evenly distributed across gender although women represented majority of respondents.

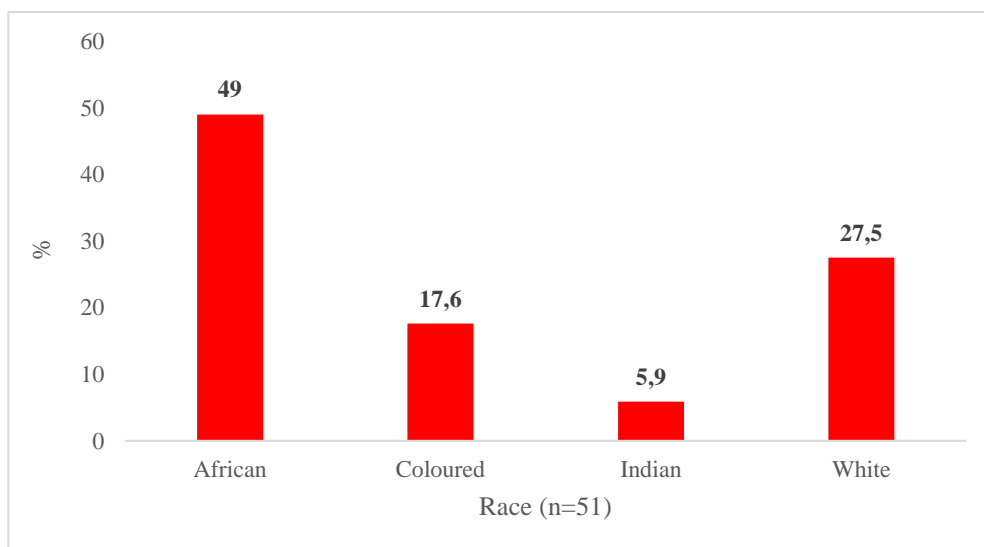
**Table 4. 1: Respondents gender**

		Frequency	Percent
Gender	Male	30	58.8
	Female	21	41.2
	Total	51	100.0

The data in Table 4.1 indicates that 58.8% of the respondents were male while females constitute 41.2%.

#### 4.2.2 Racial group of respondents

Shown in Figure 4.1 is the percentage responses by respondents as per their racial profile. The results in Figure 4.1 illustrate the diversity in respect of respondent's demographics across races.

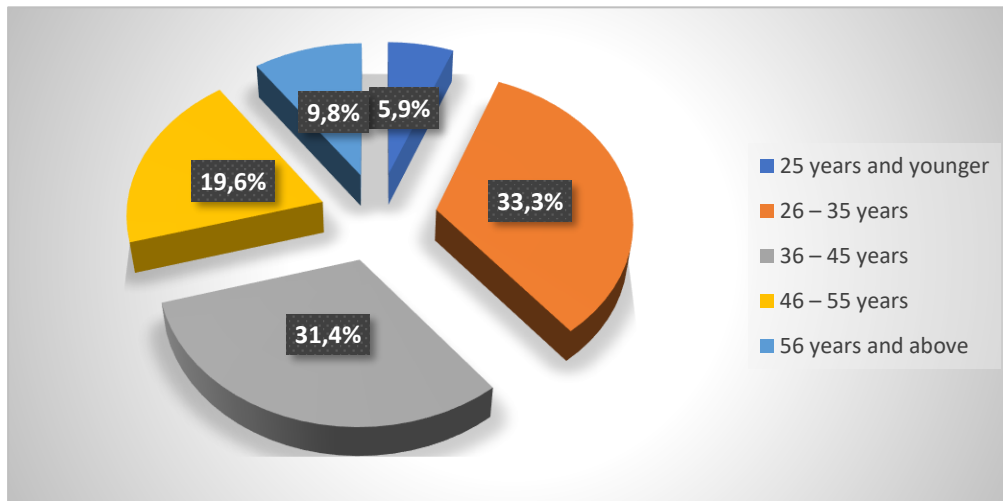


**Figure 4. 1: Racial profile of the respondents**

According to the data in Figure 4.1, nearly half of the respondents are African (49%), followed by White (27.5%), Coloured (17.6%), and Indian (5.9%). These results suggest that there is diversity in respondents in terms of race.

#### 4.2.3 Age group of respondents

Kalidin (2017: 77) revealed that most respondents participating in research studies are middle age respondents. Figure 4.2 specifies the age group of the respondents of this study.

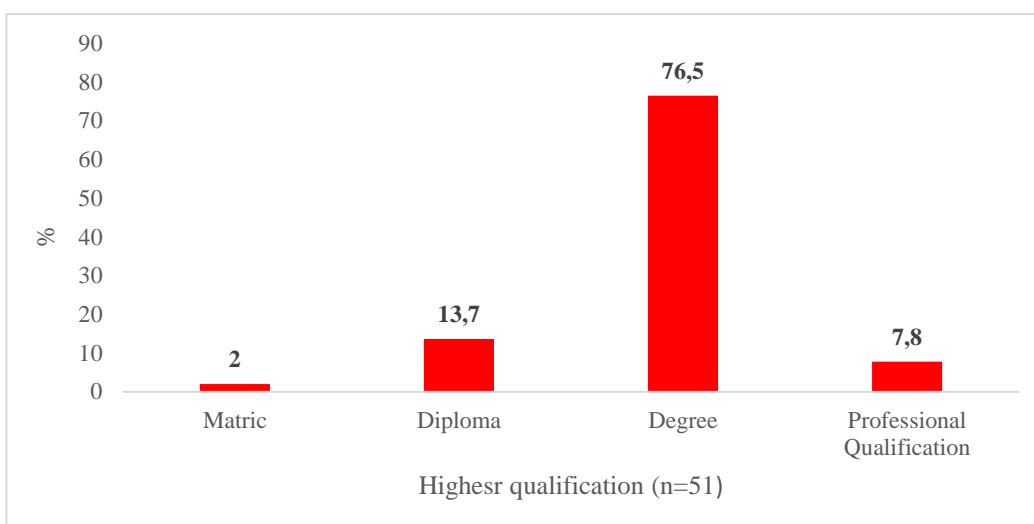


**Figure 4. 2: Pie chart showing the age distribution of the respondents**

The pie chart in Figure 4.2 shows that 33.3% of the respondents were within 26-35 years of age, 31.4% were within 36-45 years of age, 19.6% were 46-55 years of age, 9.8% 56 and above years, and 5.9% 25 and younger. The analysis suggests that respondents within 26-45 years form a good proportion (64.7%) of the age group categories. This reflects the active years of employment in South Africa.

#### **4.2.4 Level of education of respondents**

To determine the respondents' academic qualifications, consequently the skill base. The respondents were asked to provide the highest qualifications they possess. Figure 4.3 shows the level of the highest qualification for the staff members.



**Figure 4. 3: Respondents level of education**

The respondents' level of education is given in Figure 4.3. The data show that the majority 76.5% of the respondents hold a Degree, 13.7% hold National Diploma, 7.8% hold a professional qualification, and only 1 (2%) had National Certificate (Grade 12). The analysis indicates that a high proportion (90.2%) of the respondents collectively holds National Diploma and Degree. The analysis suggests that a good number of the respondents had an appropriate level of education.

#### 4.2.5 Work experience of respondents

Table 4.2 indicates the years of experience the respondents have with the SOE.

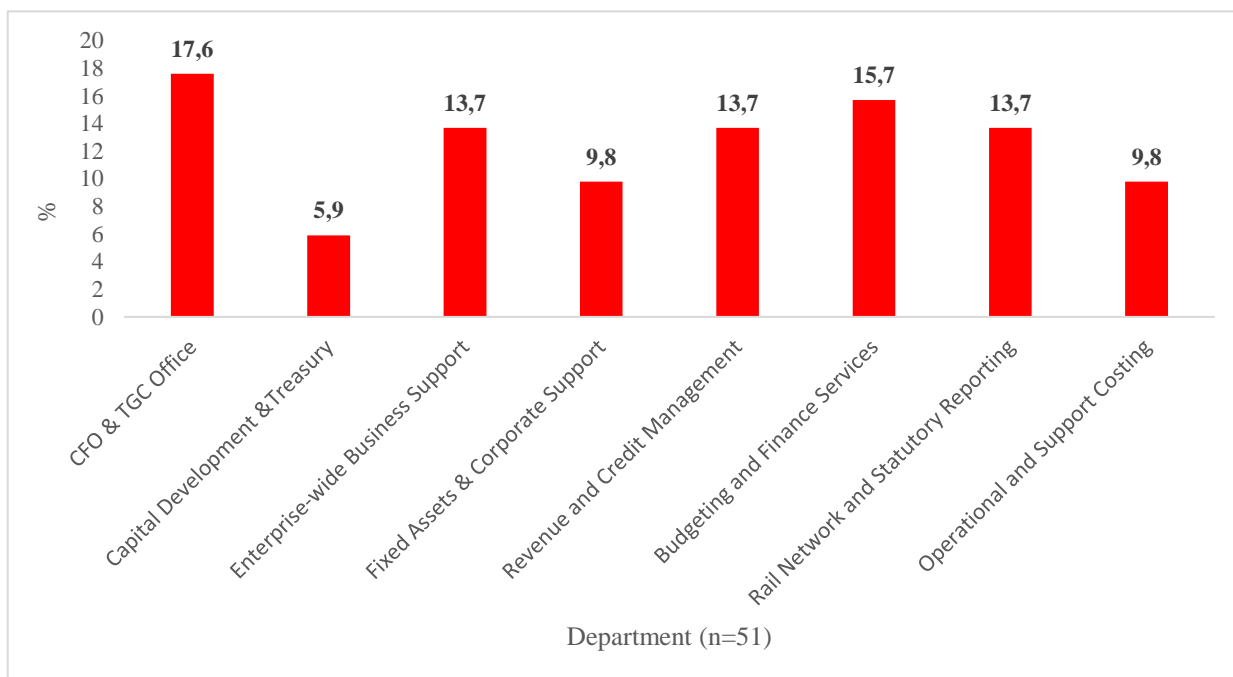
**Table 4. 2: Showing the business sectors**

		Frequency	Percent
Experience in the organisation	0 – 1 years	3	5.9
	>1 – 2 years	4	7.8
	>2 – 4 years	8	15.7
	>4 – 5 years	11	21.6
	> 5 years	25	49.0
	Total	51	100.0

The data in Table 4.2 show that nearly half (49%) of the respondents have had more than 5 years with the organisation, 21.6% have had between 4-5 years, 15.7% have had between 2-4 years of work experience with the organisation, 7.8% have had between 1-2 years, and 3 (5.9%) had had not more than 1-year work experience with the organisation.

#### 4.2.6 Department

Figure 4.4 indicates the departments where the respondents are based in terms of their work divisions. The departments where respondents are based are namely CFO and TGC office, budgeting and finance services, revenue and credit management, rail network and statutory, fixed assets and corporate support, operational and support costing and capital development and treasury.



**Figure 4. 4: Showing the respondents department**

The department of the respondents is given in Figure 4.4. From the data, more of the respondents indicated CFO and TGC office, followed by those (15.7%) in budgeting and finance services. It was found that the Enterprise-wide business support, revenue and credit management, and rail network and statutory each were 13.7% of the study population while those from fixed assets and corporate support and operational and

support costing each was 9.8%. The respondents from capital development and treasury formed 5.9% of the population.

#### 4.3 RELIABILITY TEST

Before discussing the findings of this study, this section deliberately focuses on the reliability of the research instrument. The internal reliability of the component variables constituting working capital management, investing decisions, financing decisions, and factors influencing the capital structure of the firm was tested using Cronbach's Coefficient Alpha. According to Hair *et al.* (2006), alpha of 0.70 and above was regarded as acceptable. As shown in the data in Table 4.3, the Cronbach's alpha coefficient for working capital management ( $\alpha=0.732$ ), investing decision ( $\alpha=0.728$ ), financing decisions ( $\alpha=0.838$ ) were above the recommended value of 0.70 indicating that the instrument is sufficiently reliable.

However, Cronbach's alpha coefficient for the factors influencing the capital structure of the firm was below the accepted value. Overall, the Cronbach's alpha coefficient for all the items collectively was found to be excellent ( $\alpha=0.906$ ).

**Table 4. 3: Reliability test for the research instrument**

Sections	Items	Dimensions	Cronbach's alpha
B	15	Working Capital Management	0.732
C	10	Investing decision	0.728
D	11	Financing decisions	0.838
E	11	Factors Influencing the capital structure of the firm	0.584
Total	46		0.906

##### 4.3.1: Working Capital Management

This section details the experience of the respondents on working capital management. Positive statements (strongly agree and agree) were interpreted (conflated) as agreement, while negative statements (disagree and strongly disagree) were interpreted (conflated) as disagreement. The mean value was used to show the level of agreement and disagreement.

**Table 4. 4: Respondents experience working capital management**

		Strongly disagree	Disagree	Agree	Strongly agree	Mean (SD)	T	Df	p-value
The business prepares cash budgets on a regular bases.	1	4 (7.8)	0 (0)	32 (62.7)	15 (29.4)	4.06 (1.008)	28.75 0	50	.00 0
The organisation holds cash (for precautionary and operational reasons).	2	0 (0)	1 (2.0)	35 (68.6)	15 (29.4)	4.25 (.560)	54.25 0	50	.00 0
My organisation has adopted the automation of cash management processes.	3	0 (0)	0 (0)	36 (70.6)	15 (29.4)	4.29 (.460)	66.64 0	50	.00 0
Cash Surplus is invested in marketable securities.	4	0 (0)	0 (0)	45 (88.2)	6 (11.8)	4.12 (.325)	90.37 0	50	.00 0
My organisation has a credit policy.	5	1 (1)	0 (0)	33 (65.7)	17 (33.3)	4.27 (.666)	45.85 7	50	.00 0
The enterprise is setting up credit guidelines for clients regularly.	6	1 (2.0)	13 (25.4)	26 (51.0)	11 (21.6)	3.65 (1.146)	22.73 0	50	.00 0
Review of levels of receivables is done frequently.	7	0 (0)	3 (5.9)	44 (86.3)	4 (7.8)	3.96 (.564)	50.12 5	50	.00 0
Review of levels of bad debts is done frequently.	8	0 (0)	11 (21.6)	38 (74.5)	2 (3.9)	3.61 (.874)	29.49 4	50	.00 0

**Table 4. 5 Continued**

The company does the preparation of inventory budgets regularly.	9	2 (3.9)	25 (49)	19 (37.3)	5 (9.8)	3.00 (1.200 )	17.85 4	50	.00 0
Review of inventory level is done on a regular basis.	10	0 (0)	7 (13.7 )	41 (80.4)	3 (5.9)	3.78 (.757)	35.71 6	50	.00 0
The company replacement of stock is done frequently.	11	0 (0)	5 (9.8)	42 (82.4)	4 (7.8)	3.88 (.683)	40.62 0	50	.00 0
WCM results from growth in total revenue in the company.	12	0 (0)	6 (11.8 )	38 (74.5)	7 (13.7)	3.90 (.781)	35.67 2	50	.00 0
WCM has growth effect in total assets within the enterprise.	13	0 (0)	7 (13.7 )	38 (74.5)	6 (11.8)	3.84 (.809)	33.91 4	50	.00 0
WCM has resulted in growth in net income in the enterprise.	14	0 (0)	5 (9.8)	39 (76.5)	7 (13.7)	3.94 (.732)	38.42 7	50	.00 0
The company has growth in market share as a result of effective WCM.	15	1 (2.0)	18 (35.3 )	30 (58.8)	2 (3.9)	3.27 (1.060 )	22.06 6	50	.00 0

A one-sample t-test was applied to determine if there is significant agreement or disagreement with each statement. The average agreement score was tested against the central score of '3' to determine if it is significantly different from '3'. The results are summarised in the sub-sections below.

In terms of the statement "The business prepares cash budgets on a regular bases", the majority (92.1%) of the respondents were in agreement (agree=62.7%; strongly agree=29.4%) while 7.8% were in disagreement (strongly disagree=7.8%; disagree=0%).



Similarly, the majority (98%) of the respondents were in agreement (agree=68.6%; strongly agree=29.4%) that the organisation holds cash (for precautionary and operational reasons) while 2% disagreed. All the respondents were in agreement (agree= 70.6%; strongly agree=29.4%) that their organisation has adopted the automation of cash management processes.

Furthermore, all the respondents were in agreement (agree=88.2%; strongly agree=11.8%) that Cash Surplus is invested in marketable securities. Majority (99%) of the respondents believed (agree=65.7%; strongly agree=33.3%) that their organisation has a credit policy while only 1% were in disagreement. While 72.6% were in agreement (agree=51%; strongly agree=21.6%) that the enterprise is setting up credit guidelines for clients regularly, 27.4% others were, however, in disagreement (strongly disagree=2%; disagree=25.4%). Nevertheless, the majority (94.1%) of the respondents believed (agree=86.3%; strongly agree=7.8%) that review of levels of receivables is done frequently while few (5.9%) were in disagreement. Notwithstanding this, only 78.4% were in agreement (agree=74.5%; strongly agree=3.9%) that reviews of levels of bad debts is done frequently while 21.6% disagreed with the statement.

More than half of the respondents (52.9%) were in disagreement (strongly disagree=3.9%; disagree=49%) that the “The company does the preparation of inventory budgets regularly while nearly half (47.1%) of other respondents were in agreement (agree=37.3%; strongly agree=9.8%). Nonetheless, the majority (86.3%) were in agreement (agree=80.4%; strongly agree=5.9%) that the review of inventory is done on a regular basis while 13.7% disagreed with this. Equally relevant, the majority (90.2%) of the respondents were in agreement (agree=82.4%; strongly agree=7.8%) that the company replacement of stock is done frequently while 9.8% disagreed with this.

The majority (88.2%) of the respondents believed (agree=74.5%; strongly agree=13.7%) that the WCM results from growth in total revenue in the company while 11.8% disagreed with this. Similarly, the majority (86.3%) of the respondents believed (agree=74.5%; strongly agree=11.8%) that WCM has growth effect in total assets within the enterprise while 13.7% disagreed with this. More so, the majority (90.2%)

of the respondents believed (agree=76.5%; strongly agree=13.7%) that WCM has resulted in growth in net income in the enterprise while 9.8% disagreed with this. Despite this, only 62.7% of the respondents were in agreement (agree=58.8%; strongly agree=3.9%) that the company has growth in market share as a result of effective WCM while 37.3% were in disagreement (strongly disagree=2%; disagree=35.3%).

As shown in Table 4.4, the mean values measured for the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup>, 10<sup>th</sup>, 11<sup>th</sup>, 12<sup>th</sup>, 13<sup>th</sup>, 14<sup>th</sup>, and 15<sup>th</sup> statements were above 3. This suggests that there is a significant agreement to these statements. The statement with the strongest agreement was the 3<sup>rd</sup> which was stated as “My organisation has adopted the automation of cash management process” (M=4.29; SD=0.460;  $t(50) = 66.640$ ,  $p < 0.001$ ). On the contrary, the mean value measured for the 9<sup>th</sup> statement was 3. This suggests that the respondents neither agreed nor disagreed with this statement which was stated as “The company prepares inventory budgets regularly” (M=3.00; SD=1.200;  $t(50) = 17.854$ ,  $p < 0.001$ ).

#### **4.3.2 Investing decision**

This section details the experience of the respondents on the investment decisions. Positive statements (strongly agree and agree) were interpreted (conflated) as agreement, while negative statements (disagree and strongly disagree) were interpreted (conflated) as disagreement.

**Table 4. 6: Respondents experience investing decisions**

		Strongly disagree	Disagree	Agree	Strongly agree	Mean (SD)	T	Df	p-value
The company has cash for long term investments.	1	0 (0)	1 (2)	39 (76.5)	11 (21.5)	4.18 (.518)	57.589	50	.000
The business invests in non-current assets.	2	0 (0)	9 (17.6)	33 (64.8)	9 (17.6)	3.82 (.932)	29.304	50	.000
The enterprise utilises non-current assets fully.	3	0 (0)	26 (51)	20 (39.2)	5 (9.8)	3.08 (1.146)	19.181	50	.000
The company uses Net Present Value (NPV) to assess the investments.	4	1 (2)	1 (2)	25 (49)	24 (47)	4.37 (.774)	40.366	50	.000
The company uses Pay Back Period to assess the investments.	5	1 (2)	1 (2)	23 (45)	26 (51)	4.41 (.779)	40.437	50	.000
The company uses Internal Rate of Return (IRR) to assess the investments.	6	1 (2)	1 (2)	26 (51)	23 (45)	4.35 (.770)	40.370	50	.000
The business invests without assessing the investment.	7	13 (25.5)	20 (39.2)	13 (25.5)	5 (9.8)	2.55 (1.376)	13.232	50	.000
The business invests in shares on the stock exchange.	8	4 (7.8)	21 (41.2)	24 (47.1)	2 (3.9)	2.98 (1.175)	18.121	50	.000
The business invests in real estate.	9	4 (7.8)	25 (49)	19 (37.3)	3 (5.9)	2.84 (1.189)	17.069	50	.000
The business reviews investment projects after a certain period.	10	0 (0)	0 (0)	36 (70.6)	15 (29.4)	4.29 (.460)	66.640	50	.000

The mean value was used to show the level of agreement and disagreement. A one-sample t-test was applied to determine if there is significant agreement or disagreement with each statement. The average agreement score was tested against the central score of '3' to determine if it is significantly different from '3'. The results are summarised in the sub-sections below.

The results show that the majority (98%) of the respondents were in agreement (agree=76.5%; strongly agree=21.5%) that the company has cash for long term investments while few (2%) disagreed. The results also show that the majority (82.4% of the respondents were in agreement (agree=64.8%; 17.6%) that the business invests in non-current assets while 17.6% disagreed. However, more than half 51% disagreed that the enterprise utilises non-current assets fully while 49% believed (agree=39.2%; strongly agree=9.8%) it does. Nevertheless, the majority (96%) were in agreement (agree=49%; strongly agree=47%) that the company uses Net Present Value (NPV) to assess the investments while 4% were in disagreement (strongly disagree=2%; disagree=2%).

Equally, the majority (96%) believed (agree=45%; strongly agree=51%) that the company uses Pay Back Period to assess the investments while few (4%) were in disagreement (strongly disagree=2%; disagree=2%). Similarly, 96% of the respondents believed (agree=51%; strongly agree=45%) that the company uses Internal Rate of Return (IRR) to assess the investments while few (4%) were in disagreement (strongly disagree=2%; disagree=2%). Despite this, only 64.7% were in disagreement (strongly disagree=25.5%; disagree=39.2%) that the business invests without assessing the investment while 35.3% were in agreement (agree=25.5%; strongly agree=9.8%). The results show that slightly more (51%) of the respondents were in agreement (agree= 47.1%; strongly agree=3.9%) that the business invests in shares on the stock exchange while 49% were in disagreement (strongly disagree=7.8%; disagree=41.2%).

The results also show that more than half (56.8%) of the respondents were in disagreement (strongly disagree=7.8%; disagree=49%) that the business invests in real estate while 43.2% were in agreement (agree=37.3%; strongly agree=5.9%). Nevertheless, there was consensus (agree=70.6%; 29.4%) among the respondents that the business reviews investment projects after a certain period.

As shown in Table 4.6, the mean values measured for the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup>, 5<sup>th</sup>, 6<sup>th</sup>, and 10<sup>th</sup>, statements were above 3. This suggests that there is a significant agreement to these statements. The statement with the strongest agreement was the 5<sup>th</sup> which was stated as “The company uses pay Back Period to assess the investments” (M=4.41; SD=0.779;  $t(50) = 40.437$ ,  $p < 0.001$ ).

The mean value measured for the 7<sup>th</sup>, 8<sup>th</sup> and 9<sup>th</sup> statements were below 3. This suggests that there is significant disagreement with statements. The strongest disagreement is 7<sup>th</sup> stated as “The business invests without assessing the investment” (M=2.55; SD=1.376;  $t(50) = 13.232$ ,  $p < 0.001$ ).

#### **4.3.3 Financing decisions**

This section details the experience of the respondents on the financing decision. Positive statements (strongly agree and agree) were interpreted (conflated) as agreement, while negative statements (disagree and strongly disagree) were interpreted (conflated) as disagreement. The mean value was used to show the level of agreement and disagreement.

**Table 4. 7: Respondents experience financing decisions**

		Strongly disagree	Disagree	Agree	Strongly agree	Mean (SD)	t	df	p-value
Retained earnings.	1	0 (0)	10 (19.6)	38 (74.5)	3 (5.9)	3.67 (.864)	30.304	50	.000
Debt (Loan).	2	1 (2)	0(0)	44 (86.3)	6 (11.7)	4.06 (.544)	53.235	50	.000
Trade credit, lease, hire purchase.	3	3 (5.9)	22 (43.1)	24 (47.1)	2 (3.9)	3.00 (1.149)	18.647	50	.000
External equity financing includes venture capital, private investors, government loans.	4	4 (7.8)	22 (43.1)	22 (43.2)	3 (5.9)	2.96 (1.199)	17.630	50	.000
Government subsidies.	5	4 (7.8)	18 (35.4)	22 (43.1)	7 (13.7)	3.20 (1.281)	17.819	50	.000
Relationship with the lender.	6	1 (2)	16 (31.3)	31 (60.8)	3 (5.9)	3.37 (1.058)	22.774	50	.000
Attitude to debt.	7	1 (2)	14 (27.4)	31 (60.8)	5(9.8)	3.49 (1.065)	23.397	50	.000
Firm's habitual behaviour to debt.	8	0 (0)	7 (13.7)	41 (80.4)	3 (5.9)	3.78 (.757)	35.716	50	.000

**Table 4. 6 Continued**

Increase firm's value.	9	0 (0)	5 (9.8 )	39 (76. 5)	7 (13. 7)	3.94 (.732)	38.42 7	5 0	.000
Expansion of the firm.	10	0 (0)	5 (9.8 )	38 (74. 5)	8 (15. 7)	3.96 (.747)	37.85 1	5 0	.000
Maintain control.	11	0(0)	2(3. 9)	47 (92. 2)	2(3. 9)	3.96 (.445)	63.49 8	5 0	.000

A one-sample t-test was applied to determine if there is significant agreement or disagreement with each statement. The average agreement score was tested against the central score of '3' to determine if it is significantly different from '3'. The results are summarised in the sub-sections below.

As shown in Table 4.6, the majority (80.4%) of the respondents were in agreement (agree=74.5%; disagree=5.9%) that the firm retained earnings while 19.6% disagreed. In terms debt (loan), overwhelming majority (98) were in agreement the firm experience financial decisions for debt while few (2%) strongly disagreed with this. Nevertheless, only 51% were in agreement (agree=47.1%; strongly agree=3.9%) that the trade credit, lease, and hire purchase while 49% others were in disagreement (strongly disagree=5.9%; disagree=43.1%). Slightly more (50.9%) of the respondents were in disagreement (strongly disagree=7.8%; disagree=43.1%) that the firm external equity financing includes venture capital, private investors, and government loans while 49.1% believed (agree=43.2%; strongly agree=5.9%) this to be true.

More than half (56.8%) of the respondents were in agreement (agree=43.1%; strongly agree=13.7%) that the firm received government subsidies while 43.2% were in disagreement (strongly disagree=7.8%; disagree=35.4%).

More so, 66.7% were in agreement (agree=60.8%; strongly agree=5.9%) that the firm's financial decision include relationship with the lender while 33.3% were in disagreement (strongly disagree=2%; disagree=33.3%).

The majority (70.6%) of the respondents believed (agree=60.8%; strongly agree=9.8%) the firm's financial decision includes attitude to debt while 29.4% were in disagreement (strongly disagree=2%; disagree=27.4%). The results also show that 86.3% were in agreement (agree=80.4%; strongly agree=5.9%) that the firm's financial decision includes the firm's habit behaviour to debt while 13.7% disagreed.

Furthermore, the majority (90.2%) of the respondents were in agreement (agree=76.5%; strongly agree=13.7%) that the firm financial decisions increase firm's value while 9.8% disagreed. Equally, the majority 90.2% of the respondents were in agreement (agree=74.5%; strongly agree=15.7%) that the firm financial decision leads to expansion of the firm while 9.8% disagreed. The majority 96.1% were also in agreement (agree=92.2%; strongly agree=3.9%) that the firm's financial decisions maintain control while 3.9% disagreed.

As shown in Table 4.6, the mean values measured for the 1<sup>st</sup>, 2<sup>nd</sup>, 5<sup>th</sup>, 6<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup>, 9<sup>th</sup>, 10<sup>th</sup>, and 10<sup>th</sup>, statements were above 3. This suggests that there is a significant agreement to these statements. The statement with the strongest agreement was the 2<sup>nd</sup> which was stated as "Debt (Loan)" (M=4.06; SD=0.544; t (50) =53.235, p<0.001). The mean value measured for the 3<sup>rd</sup> statement is 3. This suggests that the respondents neither agreed nor disagreed with this statement which was stated as "Trade credit, lease, hire purchase" (M=3.00; SD=1.149; t (50) =18.647, p<0.001). However, the mean value measured for the 4<sup>th</sup> statement was below 3. This suggests that there is significant disagreement to this statement stated as "External equity financing includes venture capital, private investors, government loans" (M=2.96; SD=1.199; t (50) =17.630, p<0.001).



#### 4.3.4 Factors influencing the capital structure of the firm

This section details the experience of the respondents on the factors influencing the capital structure of the firm. Positive statements (strongly agree and agree) were interpreted (conflated) as agreement, while negative statements (disagree and strongly disagree) were interpreted (conflated) as disagreement. The mean value was used to show the level of agreement and disagreement.

**Table 4. 8: Respondents experience factors influencing the capital structure of the firm**

		Strongly disagreed	Disagree	Agree	Strongly agree	Mean (SD)	t	df	p- value
I prefer that my organisation rely on internal funds.	1	0 (0)	8 (15.7)	36(7 0.6)	7 (13.7)	3.82 (.865)	31.56 7	5 0	.000
To expand the firm, I would suggest the firm gives a percentage of ownership.	2	0 (0)	4(7. 8)	40 (78. 5)	7 (13.7)	3.98 (.678)	41.92 9	5 0	.000
Risk-taking prosperities has an impact on the financing choice of the firm.	3	0 (0)	13 (25. 5)	33 (64. 7)	5 (9.8)	3.59 (.983)	26.05 8	5 0	.000
The business has easy access to bank loans.	4	0 (0)	27 (52. 9)	22 (43. 2)	2 (3.9)	2.98 (1.068)	19.93 8	5 0	.000

**Table 4.7 Continued**

The business uses internally generated cash sources and borrowed funds.	5	0 (0)	1 (2)	28 (54.9)	22 (43.1)	4.39 (.603)	52.05 1	5 0	.000
The business uses borrowed funds only.	6	20 (39.2)	14 (27.5)	13 (25.5)	4 (7.8)	2.35 (1.426)	11.78 5	5 0	.000
The business sets capital structure based on the theory.	7	0 (0)	7(13 .7)	41 (80.4)	3(5.9 )	3.78 (.757)	35.71 6	5 0	.000
Age of the company.	8	0 (0)	6 (11.8)	39 (76.4)	6 (11.8)	3.88 (.765)	36.22 2	5 0	.000
Size of the company.	9	0 (0)	2 (3.9)	43 (84.3)	6 (11.8)	4.04 (.528)	54.66 7	5 0	.000
Profitability of the company.	10	0 (0)	12 (23.5)	34 (66.7)	5 (9.8)	3.63 (.958)	27.03 1	5 0	.000
External stakeholders.	11	0 (0)	0 (0)	39 (76.5)	12 (23.5)	4.24 (.428)	70.60 2	5 0	.000

A one-sample t-test was applied to determine if there is significant agreement or disagreement with each statement. The average agreement score was tested against the central score of '3' to determine if it is significantly different from '3'. The results are summarised in the sub-sections below.

The results show that the majority (84.3%) of the respondents were in agreement (agree=70.6%; strongly agree=13.7%) that they prefer that my organisation rely on internal funds while 15.7% disagreed. Equally, 92.2% of the respondents were in agreement (agree=78.5%; strongly agree=13.7%) that to expand the firm, they would suggest the firm gives a percentage of ownership while 7.8% disagreed. More than half 74.5% were in agreement (agree=64.7%; strongly agree=9.8%) that the risk-taking prosperities has an impact on the financing choice of the firm while 25.5% disagreed.

When asked their view if the business has easy access to bank loans, more than half (52.9%) disagreed while 47.1% were in agreement (agree=43.2%; strongly agree=3.9%). This could help explain why the business uses internally generated cash sources and borrowed funds as the majority 98.2% were in agreement (agree=54.9%; strongly agree=43.1%) while few 2% disagreed. This is also supported by the fact the majority 66.7% were in disagreement (strongly disagree=39.2%; disagree=27.5%) that the business uses borrowed funds only while 33.3% were in agreement (agree=25.5%; strongly agree=7.8%).

The majority (86.3%) of the respondents were in agreement (agree=80.4%; strongly agree=5.9%) that the business sets capital structure based on the theory while 13.7% disagreed. The results also show that the majority 88.2% were in agreement (agree=76.4%; strongly agree=11.8%) that the age of the company influences the capital structure of the firm while 11.8% disagreed. The majority 96.1% were in agreement (agree=84.3%; strongly agree=11.8%) that the size of the company influences the capital structure of the firm while 3.9% disagreed. More than half (76.5%) were in agreement that the profitability of the company influences the capital structure of the firm while 23.5% disagreed.

There was consensus among the respondents (agree=76.5%; strongly agree=23.5%) that external stakeholders influence the capital structure of the firm.

As shown in Table 4.7, the mean values measured for the 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, 5<sup>th</sup>, 7<sup>th</sup>, 8<sup>th</sup>, 9<sup>th</sup>, 10<sup>th</sup>, and 11<sup>th</sup>, statements were above 3. This suggests that there is a significant agreement to these statements. The statement with the strongest agreement was the 5<sup>th</sup> which was stated as “The business uses internally generated cash sources and borrowed funds” (M=4.39; SD=0.603; t (50) =52.051, p<0.001). However, the mean value measured for the 4<sup>th</sup> and 6<sup>th</sup> statements were below 3. This suggests that there is significant disagreement with these statements. The statement with the strongest disagreement was the 6<sup>th</sup> statement stated as “The business uses borrowed funds only” (M=2.35; SD=1.426; t (50) =11.785, p<0.001).

#### **4.4 RELATIONSHIP BETWEEN SOCIO-DEMOGRAPHIC VARIABLES CONSTRUCTS**

The relationship between the respondent's demographic characteristics (gender, age, and racial group, level of education, work experience, and department) and the constructs (working capital management, investment decision, financing decisions, and factors influencing the capital structure of the firm) was conducted using a one-way Analysis of Variance (ANOVA). The results are summarised in Table 4.9.

**Table 4. 9: Association between constructs and respondents socio-demographic variables**

Socio-demographic	WCM	Investing decision	Financing decisions	Factors Influencing the capital structure of the firm
	M±SD	M±SD	M±SD	M±SD
<b>Gender</b>				
Male	3.67±.31	3.56±.53	3.47±.56	3.62±.31
Female	3.78±.4	3.87±.44	3.74±.57	3.82±.42
Sig.	0.264	0.032**	0.090	0.052
<b>Age group</b>				
25 years and younger	3.94±0.22	4.031±0.06	4.00±0.00	3.82±0.31
26 – 35 years	3.79±0.28	3.72±0.54	3.62±0.63	3.73±0.37
36 – 45 years	3.73±0.43	3.74±0.45	3.64±0.47	3.64±0.38
46 – 55 years	3.59±0.33	3.69±0.33	3.39±0.50	3.62±0.26
56 years and above	3.56 ±0.46	3.22±0.88	3.40±0.92	3.85±0.58
Sig.	0.422	0.225	0.505	0.713

**Table 4.8 Continued**

<b>Race</b>				
African	3.67±.35	3.74±0.47	3.55±0.55	3.64±0.29
Coloured	3.60±.20	3.56±0.37	3.43±0.61	3.66±0.46
Indian	3.73±0.19	3.73±0.47	3.88±0.23	3.52±0.32
White	3.88±0.45	3.68±0.71	3.68±0.66	3.87±0.42
Sig.	.261	0.848	0.615	0.211
<b>Qualification</b>				
Matric	3.81±0.00	4.00±0.00	4.00±0.00	4.00±0.00
Diploma	4.13±0.36	4.19±0.25	4.18±0.26	4.03±0.37
Degree	3.62±0.32	3.55±0.50	3.42±0.55	3.62±0.35
Professional qualification	3.91±0.12	4.08±0.15	4.02±0.04	3.86±0.27
Sig.	0.002***	0.005***	0.002***	0.024**
<b>Work experience</b>				
0 – 1 years	3.81±0.00	4.00±0.00	4.00±0.00	4.00±0.00
>1 – 2 years	4.22±0.46	4.18±0.22	3.91±0.40	3.91±0.40
>2 – 4 years	3.86±0.21	3.94±0.74	3.86±0.38	3.86±0.38
>4 – 5 years	3.68±0.32	3.67±0.29	3.83±0.45	3.83±0.45
> 5 years	3.60±0.35	3.50±0.49	3.52±0.26	3.52±0.26
Sig.	0.011**	0.037**	0.009***	0.009***

**Table 4.8 Continued**

<b>Department</b>				
CFO & TGC Office	3.80±0.36	3.73±0.56	3.65±0.66	3.72±0.30
Capital Development & Treasury	3.94±0.82	4.00±0.46	3.48±0.68	3.70±0.34
Enterprise-wide Business Support	3.54±0.33	3.60±0.33	3.40±0.36	3.51±0.34
Fixed Assets & Corporate Support	3.60±0.34	3.90±0.45	3.55±0.58	3.80±0.54
Revenue and Credit Management	3.79±0.13	3.66±0.35	3.70±0.67	3.95±0.43
Budgeting and Finance Services	3.63±0.35	3.46±0.89	3.38±0.70	3.48±0.23
Rail Network and Statutory Reporting	3.83±0.24	3.80±0.35	3.95±0.31	3.71±0.31
Operational and Support Costing	3.68±0.50	3.58±0.44	3.45±0.64	3.80±0.41
Sig	0.651	0.766	0.648	0.266

In terms of the respondents' gender, the results of the ANOVA in Table 4.9 reveals that there are no differences in their views on working capital management ( $P=0.264$ ), financing decision ( $P=0.09$ ), and factors influencing the capital structure of the firm ( $P=0.052$ ). On the contrary, there is a statistically significant difference measured for investing decisions ( $P=0.032$ ). The mean measured for female respondents ( $M=3.87\pm0.44$ ), for example, was higher when compared to the male ( $M=3.56\pm0.53$ ). This suggests that female respondents agreed more with statements measuring investing decisions when compared to their male counterparts.

In terms of the age group, the ANOVA values measured suggests that there are no differences in the respondents' views in all the four constructs namely working capital management ( $P=0.422$ ), investing decision ( $P=0.225$ ), financing decisions ( $P=0.505$ ), and factors influencing the capital structure of the firm ( $P=0.713$ ). This suggests that regardless of the age group identified by the respondents, their views were more or less the same.

In terms of the race, the ANOVA values measured suggests that there are no differences in the respondents' views in all the four constructs namely working capital management ( $P=0.261$ ), investing decision ( $P=0.848$ ), financing decisions ( $P=0.615$ ), and factors influencing the capital structure of the firm ( $P=0.211$ ). This suggests that regardless of the racial group identified by the respondents, their views were more or less the same.

In terms of level of education (qualification), the ANOVA values measures show that there are statistically significant differences in views of the respondents in working capital management ( $P=0.002$ ), investing decision ( $P=0.005$ ), financing decisions ( $P=0.002$ ), and factors influencing the capital structure of the firm ( $P=0.024$ ). It was found that Diploma holders agreed more with the statements measuring working capital management ( $M=4.13\pm 0.36$ ), investing decision ( $M=4.19\pm 0.25$ ), financing decisions ( $M=4.18\pm 0.26$ ), and factors influencing the capital structure of the firm ( $M=4.03\pm 0.37$ ) when compared to other levels of education.

In terms of working experience in the organisation, the ANOVA values suggest that there are statistically significant differences in views of the respondents in working capital management ( $P=0.011$ ), investing decision ( $P=0.037$ ), financing decisions ( $P=0.009$ ), and factors influencing the capital structure of the firm ( $P=0.009$ ). It was found that while those that have had >1 and 2 years work experience agreed more with the statements measuring working capital management ( $M=4.22\pm 0.46$ ) and investing decision ( $M=4.18\pm 0.22$ ), respondents with 0-1 years' work experience, however, agreed more with financing decisions ( $M=4.00\pm 0.00$ ) and factors influencing the capital structure of the firm ( $M=4.00\pm 0.00$ ) when compared to other years of work experience.



In terms of the age group, the ANOVA values measured suggests that there are no differences in the respondents' views in all the four constructs namely working capital management (P=0.651), investing decision (P=0.766), financing decisions (P=0.648), and factors influencing the capital structure of the firm (P=0.266). This suggests that regardless of the department, their views were more or less the same.

#### 4.5 CORRELATION ANALYSIS

Pearson correlation was used to analyse the association existing among the four constructs (working capital management, investment decision, financing decisions, and factors influencing the capital structure of the firm). The analyses are demonstrated in table 4.10.

**Table 4. 10: Correlation among the constructs**

		WCM	Investing	Financing	Factors
WCM	Pearson Correlation	1	.579**	.624**	.483**
	Sig. (2-tailed)		.000	.000	.000
	N	51	51	51	51
Investing	Pearson Correlation	.579**	1	.773**	.467**
	Sig. (2-tailed)	.000		.000	.001
	N	51	51	51	51
Financing	Pearson Correlation	.624**	.773**	1	.631**
	Sig. (2-tailed)	.000	.000		.000
	N	51	51	51	51
Factors	Pearson Correlation	.483**	.467**	.631**	1
	Sig. (2-tailed)	.000	.001	.000	
	N	51	51	51	51

\*\* . Correlation is significant at the 0.01 level (2-tailed).

As shown in Table 4.10, the association between working capital management and investing decision ( $r=0.579$ ;  $p<0.001$ ), financing decision ( $r=0.624$ ;  $p<0.001$ ), and factors influencing the capital structure of the firm ( $r=0.483$ ;  $p<0.001$ ) was strong and positive. This suggests that working capital management correlates significantly with investing decisions, financing decisions, and factors influencing the capital structure of the firm.

Similarly, the Pearson correlation coefficient shows that investing decisions correlates positively with financing decisions ( $r=0.773$ ;  $p<0.001$ ) and factors influencing the capital structure of the firm ( $r=0.467$ ;  $p<0.001$ ) while financing decision correlates positively with factors influencing the capital structure of the firm ( $r=0.631$ ;  $p<0.001$ ).

#### 4.6 FACTOR ANALYSIS AND VALIDATION OF THE RESEARCH CONSTRUCTS

Factor analysis was performed to validate the constructs (working capital management, investing decisions, financing decisions, and factors influencing the capital structure of the firm) using exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). According to Watkins (2018:220), factor analysis can help identify common factors that explain the order and structure among measured variables. The analyses are demonstrated in table 4.11

**Table 4. 11: KMO and Bartlett's Test for the constructs**

Section	Caption	Kaiser-Meyer-Olkin Measure of Sampling Adequacy	Bartlett's Test of Sphericity		
			Approx. Chi-Square	df	Sig.
2	Working Capital Management	0.649	283.699	105	0.000
3	Investing decision	0.688	375.717	45	0.000
4	Financing decisions	0.693	321.849	55	0.000
5	Factors Influencing the capital structure of the firm	0.521	128.647	45	0.000

EFA analysis making use of principal component analysis (PCA) extraction method and Varimax rotation were set as the measuring parameters. Shrestha (2021:07) explain that the condition for EFA, Kaiser-Meyer value should exceed the value of 0.5 and Bartlett's Test of Sphericity must be statistically significant.

The data in Table 4.10 show that the Kaiser-Meyer value for all the four constructs exceeded the recommended values while Bartlett's Test of Sphericity was statistically significant. This, therefore, support the suitability of the correlation matrix

#### **4.6.1 Validation of the working capital management**

Using the eigenvalues-greater than-one, the PCA for the extracted items for working capital management revealed five factors explaining 67.98% of the total variance. This suggests that the respondents view working capital management under five separate factors. The analyses are demonstrated in table 4.12.

**Table 4. 12: Factor coefficient on working capital management**

	Component				
	1	2	3	4	5
20. WCM has growth effect in total assets within the enterprise.	.860				
21. WCM has resulted in growth in net income in the enterprise.	.735				
22. The company has growth in market share as result of effective WCM.	.707				
18. The company replacement of stock is done frequently.	.704				
19. WCM results growth in total revenue in the company.	.700				
14. Review of levels of receivables is done frequently.					
15. Review of levels of bad debts is done frequently.		.748			
17. Review of inventory level is done on a regular basis.		.719			

16. The company does the preparation of inventory budgets regularly.		.706			
9. The organisation holds cash (for precautionary and operational reasons).		-.585			
13. The enterprise is setting up credit guidelines for clients regularly.			.778		
12. My organisation has a credit policy.			.712		
7. The business prepares cash budgets on a regular basis.				.780	
10. My organisation has adopted the automation of cash management processes.					.844
11. Cash Surplus is invested in marketable securities.					.714

Factor 1 contains 5 items (Item Q18-22) which are categorised under “financial performance”. Factor 2 contain 4 items (Item Q9, Q15-17). However, item 9 has negative factor loading and was removed. Factor 2 is categorised under the review of “working capital management”. Factor 3 contain and Factor 5 contain 2 items while Factor 4 has only one item. Since the rule of thumb suggests that a factor must have at least 3 items, factors 3, 4 and 5 were not considered for further analysis.

**Table 4. 13: Showing the reliability, discriminant, and convergent validity**

	Cronbach's alpha	CR	AVE	MSV	MaxR(H)	Financial performance	Review of working capital management
Financial performance	0.851	0.848	0.631	0.289	0.907	0.736	
Review of working capital management	0.711	0.892	0.626	0.289	0.804	0.538	0.689

Confirmatory factor analysis (CFA) was computed to validate the EFA analysis of the two factors uncovered for working capital management. The reliability of the two factors (financial performance and review of working capital management) were assessed using Cronbach alpha and composite reliability. The data show that each of the dimensions has acceptable reliability. The validity of the dimensions was assessed using both convergent and discriminant validity. The convergent validity was assessed using the average variance extracted (AVE).

According to Hair *et al.* (2010), standardised factor loading with a value of 0.50 or higher provides strong evidence of convergent validity. As shown in Table 4.9, the average variance extracted (AVE) for the two factors mentioned above have a factor loading above the recommended value, which suggest adequate convergent validity. Discriminant validity was assessed using maximum shared square variance (MSV).

Based on the rule of thumb, the AVE value should be greater than the MSV (Mimouni-Chaabane and Volle, 2010:34). The AVE values for the two factors were found to be greater than the measured MSV values, which suggests discriminant validity.

#### 4.6.2 Validation the investing decisions

Using the eigenvalues-greater than-one, the PCA for the extracted items for working capital management revealed three factors explaining 76% of the total variance. This suggests that the respondents' views on investing decisions are under three separate factors.

**Table 4. 14: Factor coefficient for investing decision construct**

	Component		
	1	2	3
30. The business invests in shares on the stock exchange.	.945		
31. The business invests in real estate.	.886		
25. The enterprise utilises non- current assets fully.	.879		
29. The business invests without assessing the investment.	.806		
24. The business invests in non-current assets.	.662		
27. The company uses Pay Back Period to assess the investments.		.958	
26. The company uses Net Present Value (NPV) to assess the investments.		.939	
28. The company uses the Internal Rate of Return (IRR) to assess the investments.		.917	

23. The company has cash for long term investments.			.717
32. The business reviews investment projects after a certain period.			.622

Factor 1 contains 5 items (Item Q24, 25, 29-31) which are categorised under “investment decisions”. Factor 2 contain 3 items (Item Q26-28), which is categorised under “Assess to investment”. Factor 3 contain 2 items (Q23 and Q32). Since the rule of thumb suggests that a factor must have at least 3 items, factor 3 was not considered for further analysis.

**Table 4. 15: Showing the reliability, discriminant and convergent validity for investing decisions**

	Cronbach's alpha	CR	AVE	MSV	MaxR(H)	Assess to investment	Investment decision
Assess to investment	0.952	0.953	0.873	0.472	0.981	0.934	
Investment decision	0.896	0.903	0.657	0.032	0.971	-0.178	0.810

Confirmatory factor analysis (CFA) was computed to validate the EFA analysis of the two factors uncovered for investing decisions. The reliability of the two factors (investment decisions and assessment to investment) was assessed using Cronbach alpha and composite reliability. The data show that each of the dimensions has acceptable reliability.

The validity of the dimensions was assessed using both convergent and discriminant validity. The convergent validity was assessed using the average variance extracted (AVE).



As shown in Table 4.14, the average variance extracted (AVE) for two factors have a factor loading above the recommended value, which suggest adequate convergent validity. Discriminant validity was assessed using maximum shared square variance (MSV). The AVE values for the two factors were found to be greater than the measured MSV values, which suggests discriminant validity.

#### 4.6.3 Validation the financing decisions

Using the eigenvalues-greater than-one, the PCA for the extracted items for working capital management revealed three factors explaining 70.7% of the total variance. This suggests that the respondents' view financing decisions under three separate factors.

**Table 4. 16: Factor coefficient for financing decision construct**

	Component		
	1	2	3
36. External equity financing includes venture capital, private investors, government loans.	.933		
37. Government subsidies.	.925		
35. Trade credit, lease, hire purchase.	.808		
39. Attitude to debt.	.615		
43. Maintain control.		.902	
41. Increase firm's value.		.795	
42. Expansion of the firm.		.752	
34. Debt (Loan).			.831
33. Retained earnings.	.577		.608
38. Relationship with the lender.			.590
40. Firm's habitual behaviour to debt.			.556

Factor 1 contains 4 items (Item Q35-37 and Q39) which are categorised under “Source of finance”. Factor 2 contain 3 items (Item Q41-43), which is categorised under “Firm growth and stability”. Factor 3 contain 3 items (Q34, Q38, and Q40), which is categorised under “Firm debt”. It is worth noting that item Q33 has a cross-loading between factors 1 and 3 and was dropped from further analysis.

**Table 4. 17: Showing the reliability, discriminant and convergent validity for financing decisions**

	<b>Cronbach's alpha</b>	<b>CR</b>	<b>AVE</b>	<b>MSV</b>	<b>MaxR(H)</b>	<b>Firm growth and stability</b>	<b>Source of finance</b>	<b>Firm debt</b>
<b>Firm growth and stability</b>	0.626	0.794	0.570	0.002	1.040	<b>0.755</b>		
<b>Source of finance</b>	0.887	0.923	0.752	0.530	0.994	-0.045	<b>0.867</b>	
<b>Firm Debt</b>	0.754	0.861	0.760	0.530	0.684	0.012	0.728	<b>0.872</b>

Confirmatory factor analysis (CFA) was computed to validate the EFA analysis of the three factors uncovered for financing decisions. The reliability of the three factors (Source of finance, firm growth and stability, and firm debt) were assessed using Cronbach alpha and composite reliability. The data show that each of the dimensions has acceptable reliability. The validity of the dimensions was assessed using both convergent and discriminant validity. The convergent validity was assessed using the average variance extracted (AVE). As shown in Table 4.13, the average variance

extracted (AVE) for three factors have a factor loading above the recommended value, which suggest adequate convergent validity. Discriminant validity was assessed using maximum shared square variance (MSV). The AVE values for the three factors were found to be greater than the measured MSV values, which suggests discriminant validity.

#### 4.6.4 Validation the factors influencing the capital structure of the firm

Using the eigenvalues-greater than-one, the PCA for the extracted items for working capital management revealed four factors explaining 67.7% of the total variance. This suggests that the respondents' view the factors influencing the capital structure of the firm under four separate factors

**Table 4. 18: Factor coefficient for the factors influencing the capital structure of the firm construct**

	Component			
	1	2	3	4
53. Profitability of the company.	.885			
47. The business has easy access to bank loans.	.781			
46. Risk-taking prosperities has an impact in the financing choice of the firm.	.538			
54. External stakeholders.		.822		
48. The business uses internally generated cash sources and borrowed funds.		.667		

50. The business sets capital structure based on the theory.		.615		
49. The business uses borrowed funds only.			.702	
51. Age of the company.			.657	

**Table 4.17 Continued**

52. Size of the company.			.576	
45. To expand the firm, I would suggest the firm gives a percentage of ownership.				.925
Extraction Method: Principal Component Analysis.				
Rotation Method: Varimax with Kaiser Normalization.				
a. Rotation converged in 10 iterations.				

Factor 1 contains 3 items (Item Q46-47 and Q53) which are categorised under “Profits”. Factor 2 contain 3 items (Item Q48, Q50, and Q54), which is categorised under “Capital structure”. Factor 3 contain 3 items (Q49, and Q 51-52), which is categorised under “Profile of the firm. It is worth noting that factor four has one item Q45 and was subsequently dropped from further analysis.

**Table 4. 19: Showing the reliability, discriminant and convergent validity for the factors influencing the capital structure of the firm**

	<b>Cronbach's alpha</b>	<b>CR</b>	<b>AVE</b>	<b>MSV</b>	<b>MaxR(H)</b>	<b>Capital structure</b>	<b>Profits</b>	<b>Profile of the firm</b>
<b>Capital structure</b>	0.560	0.766	0.525	0.072	1.258	<b>0.725</b>		
<b>Profits</b>	0.711	0.822	0.612	0.457	0.875	-0.365	<b>0.782</b>	
<b>Profile of the firm</b>	0.456	0.682	0.448	0.457	1.010	-0.068	0.595	<b>0.669</b>

Confirmatory factor analysis (CFA) was computed to validate the EFA analysis of the three factors uncovered for the factors influencing the capital structure of the firm. The reliability of the three factors (capital structure, profits, and profile of the firm) was assessed using Cronbach alpha and composite reliability.

Although the data in Table 4.15 show that the Cronbach's alpha for capital structure ( $\alpha=0.560$ ) and profile of the firm ( $\alpha=0.456$ ) were below the accepted value, the composite reliability for the two factors was, however, above 0.7 which suggests adequate reliability. Both the Cronbach's alpha ( $\alpha=0.711$ ) and composite reliability for the factor "Profits" have acceptable reliability. The validity of the dimensions was assessed using both convergent and discriminant validity. The convergent validity was assessed using the average variance extracted (AVE). As shown in Table 4.15, the average variance extracted (AVE) for two factors (capital structure and profits) have a factor loading above the recommended value, which suggest adequate convergent validity. On the contrary, the AVE for the factor "Profile of the firm has a value below the accepted value, and thus failing to support the convergent validity.

The discriminant validity was assessed using maximum shared square variance (MSV). The AVE values for the two factors (capital structure and profits) were found to be greater than the measured MSV values, which suggests discriminant validity. However, the MSV measured for the profile of the firm was above the AVE values, thus failing to support the discriminant validity.

#### **4.5 ASSESSING THE RESEARCH OBJECTIVES USING MULTIPLE REGRESSION ANALYSIS**

Part of the research inquiry this study aimed to achieve was to explore finance staff perceptions on the effectiveness of financial management practices on improving the financial performance of a state-owned enterprise in Johannesburg. In an attempt to achieve this, multiple regression analysis was computed to address the following objectives:

- To assess finance staff perceptions on the effectiveness of working capital management (WCM) to improve financial performance.
- To reveal finance staff perceptions on how investment decisions, contribute to improve financial performance.
- To ascertain finance staff perceptions on the effectiveness of financing decisions to improve financial performance.
- To explore factors influencing capital structure and how they affect the financial performance.

##### **4.7.1 Objective one: assess the effect of working capital management (WCM) on financial performance**

From the factor analysis, the two factors emerged from the working capital management, namely financial performance (dependent variable) and review of working capital management (Independent variable).

**Table 4. 20: Perceived effect of working capital management on financial performance**

IV	R	R <sup>2</sup>	F	df1; df2	p- value	B (regression coefficient)	t	p- value	DV
Review of working capital management	0.597	0.357	27.150	1; 49	.000	0.597	5.211	.000	Finance performance

As shown in Table 4.16, the regression coefficient suggests that there is a strong causal relationship in the model ( $r=0.597$ ;  $p<0.001$ ). The F test indicates that the relationship is statistically significant ( $p<0.001$ ).

It was found that review of working capital management accounts for 35.7% ( $R^2 = 0.357$ ) of the variance in finance performance  $F(1, 49) = 27.1560$ ,  $p<.000$  and it (Review of working capital management) is also a significant predictor of financial performance, and the relationship was positive ( $\beta = 0.597$ ,  $p<.001$ ).

This means that as a review of working capital management increases (agreement that the firm reviews working capital management), financial performance (agreement on financial finance performance) increases.

#### **4.7.2 Objective two: To reveal how investment decisions contribute to financial performance**

From the factor analysis, the two factors emerged from the investment decisions construct namely; Investment decisions and Assess of investment. These two factors were taken as the independent variables while financial performance was the dependent variable.

**Table 4. 21: Perceived effect of investment decisions on financial performance**

IV	R	R <sup>2</sup>	F	df1; df2	p- value	B (regression coefficient)	t	p- value	DV
Investment decisions	0.814	0.663	47.265	2; 48	.000	0.827	9.718	.000	Finance performance
Assess to investment						0.122	1.429	0.159	

As shown in Table 4.17, the regression coefficient suggests that there is a strong causal relationship in the model, and the relationship is statistically significant ( $r=0.814$ ;  $p<0.001$ ).

It was found that investment decisions, and assessment to an investment account for 66.3% ( $R^2 = 0.663$ ) of the variance in finance performance  $F(2, 48) = 47.265$ ,  $p<.000$ ).

The beta coefficient measured suggests that investment decision is a significant predictor of financial performance, and the relationship was positive ( $\beta = 0.827$ ,  $p<.001$ ). This means that as investment decisions increase (agreement that the conduct investment decisions), financial performance (agreement on financial finance performance) increases. However, the beta coefficient measured for assess to investment ( $\beta = 0.122$ ,  $P=0.159$ ) was not a significant predictor of financial performance. This suggests that assessment to investment has no relationship with financial performance.

#### **4.7.3 Objective three: To ascertain the effectiveness of financing decisions on financial performance**

From the factor analysis, the three factors emerged from the financing decisions construct namely; source of finance, firm growth and stability and firm debt. These three factors were taken as the independent variables while financial performance was the dependent variable.



**Table 4. 22: Perceived effect of financing decisions on financial performance**

IV	R	R <sup>2</sup>	F	df1; df2	p- value	B (regression coefficient)	t	p- value	DV
Source of finance	0.996	0.992	1941.136	3; 47	.000	0.702	42.702	0.000	Finance performance
Firm growth and stability						0.229	17.426	0.000	
Firm debt						0.345	21.116	0.000	

As shown in Table 4.18, the regression coefficient suggests that there is a strong causal relationship in the model, and the relationship is statistically significant ( $r=0.996$ ;  $p<0.001$ ). It was found that source of finance, firm growth and stability, firm debt account for 99.2% ( $R^2 = 0.992$ ) of the variance in finance performance  $F(3, 47) = 1941.136$ ,  $p<.000$ ). The beta coefficient measured suggests that source of finance ( $\beta = 0.702$ ,  $p<.001$ ), firm growth and stability ( $\beta = 0.229$ ,  $p<.001$ ), and firm debt ( $\beta = 0.345$ ,  $p<.001$ ) were significant predictors of financial performance, and the relationship was positive. This means that as the source of finance, firm growth and stability, and firm debt increase (agreement that on these factors), financial performance (agreement on financial finance performance) increases. Overall, the beta coefficient measured for the source of finance suggests that it is the strongest predictor of financial performance.

#### 4.7.4 Objective four: To explore factors influencing capital structure and the effect on financial performance

From the factor analysis, the three factors emerged from the financing decisions construct namely; profits, capital structure, and profile of the firm. These three factors were taken as the independent variables while financial performance was the dependent variable.

**Table 4. 23: Perceived effect of factors influencing capital structure on financial performance**

IV	R	R <sup>2</sup>	F	df1; df2	p- value	B (regression coefficient)	t	p- value	DV
Profits	0.769	0.591	22.683	3; 47	.000	0.620	5.649	0.000	Finance performance
Capital structure	-0.205					- 2.102	0.041		
Profile of firms	0.290					2.717	0.009		

As shown in Table 4.19, the regression coefficient suggests that there is a strong causal relationship in the model, and the relationship is statistically significant ( $r=0.769$ ;  $p<0.001$ ). It was found that profits, capital structure, and profile of the firm collectively account for 59.1% ( $R^2 = 0.591$ ) of the variance in finance performance  $F(3, 47) = 22.683$ ,  $p<.000$ ). The beta coefficient measured suggests that profits ( $\beta = 0.620$ ,  $p<.001$ ), and the profile of the firm ( $\beta = 0.290$ ,  $p<.001$ ) were significant predictors of financial performance, and the relationship was positive.

This means that as profits and profile of the firm increase (agreement that on these factors), financial performance (agreement on financial finance performance) increases. Although the capital structure of the firm was a significant predictor of financial performance, the relationship was, however, negative ( $\beta = -0.205$ ,  $p<.001$ ).

This suggests that as the capital structure of the firm increases (agreement) the financial performance decreases (disagreement). Overall, the beta coefficient measured for-profits suggests that it is the strongest predictor of financial performance.

#### **4.8 Conclusion**

In summary, this chapter has extensively analysed and presented the views of employees of an SOE on the financial performance of the firm. The data suggest that collectively, the respondents have a good level of education (Diploma and Degree) and have spent not less than 2 years with the organisation. Four constructs namely working capital management, investing decisions, financial decisions, and factors influencing the capital structure of the firm were analysed and validated using EFA. The mean values measured suggests that there is significant agreement among the respondents. The ANOVA tests suggest that respondents with Diploma, had >1-2 years' experience, and worked in the Capital development and treasury department had a more positive view (agreement).

In terms of working capital management, the EFA identified two factors (financial performance and review of working capital management) which were both validated by the CFA analysis. In terms of investment decisions, the EFA identified two factors (investment decisions and assessment to investment) which were both validated by the CFA analysis. In terms of financing decisions, the EFA identified three factors (source of finance, firm growth and stability, and firm debt), which was validated by the CFA analysis. In terms of the factors influencing the capital structure of the firm, the EFA identified three factors (profits, capital structure, and profile of the firm). While the CFA validated profits and capital structure, there was, however, the validity for the profile of the firm should be treated with caution due to failure to support discriminant and convergent validity. The regression analysis suggests that all the identified factors except for assessing investment were significant predictors of the firm financial performance.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

The presentation of the findings and interpretations of data collected was covered in the preceding chapter. The presentation of the results was in graphical formats and tables. This present chapter discloses how the aim and objectives of the study were attained for the study aspired to investigate the effects of financial performance practices on financial performance of a SOE in Johannesburg. The conclusions relating to the findings are contained in the present chapter. In addition, the recommendations on how efficient an SOE can improve its financial performance are also covered, how study address the research objectives and the area which are open for further research studies are also deal with.

#### **5.2 OVERVIEW OF THE STUDY**

The aim of this study was to explore finance staff perceptions on the effectiveness of financial management practices on improving financial performance of a state-owned enterprise in Johannesburg.

The above aim necessitated that this study addresses the following objectives.

- To assess finance staff perceptions on the effectiveness of working capital management (WCM) to improve financial performance.
- To reveal finance staff perceptions on how investment decisions, contribute to improve financial performance.
- To ascertain finance staff perceptions on the effectiveness of financing decisions to improve financial performance.
- To explore factors influencing capital structure and how they affect the financial performance.

The significance of the SOE enterprise in the economy was discussed in the literature review. The financial management practices i.e., working capital management, investing decisions, financing decisions and factors influencing the capital structure were exploring in literature review. The literature review explored the theories relating to in financial management practices and capital structure theories.

The relationship between financial management and financial performance was also explored in the literature review. The research methodology presented the outline of the research design, sample selection and data collection instrument utilised by the researcher to achieve the research objectives of the study. Quantitative approach was utilised in this research study, and it was cross-sectional in nature.

For data collection, the survey questionnaire was used. The research questionnaire concentrated on practices relating to the objectives of the study. The sample size comprised of 69 staff members within finance division of a SOE in Johannesburg, however only 51 staff members managed to respond. This resulted in a response rate of 74%. To attain the desired sample, non-random sampling using convenience sampling was utilised.

The responses were analysed using SPSS (version 27<sup>®</sup>) in line with the study objectives. Descriptive statistics was used to present a summary of the respondent's information. The literature cited in the literature review was contrasted with the study results. The presentation of the results was done in a numerous ways using table, bar graphs and pie charts amongst others.

The comprehensive empirical analysis of data revealed a lot of significant findings. Furthermore, these findings were supported by other researchers and authors who conducted studies that are similar to the current study and these findings were contextualised appropriately to the current research study. Therefore, the tenability and scientific worth of the study was proved through the developed for this study. However, the results cannot be generalised to any SOE nor an entire SOE nationwide where the study was conducted but an operational division within the SOE in Johannesburg.

### **5.3 PRESENTATION OF CONCLUSIONS BASED ON THE FINDINGS**

This section provides a brief breakdown on the attainment of the research objectives. The section concentrates on findings put forward in chapter four founded on the objectives outlined in the first chapter.

#### **5.3.1 To assess the effect of working capital management (WCM) on financial performance of a state-owned enterprise in Johannesburg.**

The researcher aimed at assessing the effect of working capital management on financial performance of an SOE in Johannesburg. The literature review in chapter two addressed this objective and it was further achieved in chapter four using descriptive statistics and factor analysis. Chapter two explored the literature on WCM practices and financial performance for the realisation of this objective. The researcher aimed at assessing the effect of working capital management on financial performance of an SOE in Johannesburg.

The following findings were revealed in chapter four regarding the WCM management practices and financial performance. The study revealed the adoption of automation of cash management process as the working capital management practice with great agreement of its application amongst other practices. The preparation of inventory budget on regular bases was discovered as the working capital management practice with least agreement of its application, this was shown in the analysis where there was not agreement, nor disagreement of the application for this working capital management practice.

The working capital management practices are utilised at a SOE. The respondents viewed working capital management under two separate factors. These factors are financial performance (dependent variable) and the review of working capital management (independent variable). The two factors are validated by CFA analysis. The results showed a strong significant relationship between these two variables.

The study revealed that review of working capital management practices is a significant predictor of the financial performance. The relationship between review of working capital management and financial performance is positive, the study further reveals.

This is consistent with the findings of the research by (Nthenge and Ringera 2017; Abdulazeez *et al.* 2018; Alvarez, Sensini and Vazquez 2021; Ibrahim and Isiaka 2021). These studies signify that by utilising the working capital management practices, the firm realises the growth in total assets, a growth in net income, a growth in market share, and growth in revenue. This signifies that financial performance can be predicted through financial management systems implemented in a SOE.

### **5.3.2 To reveal how investment decisions, contribute to financial performance.**

Likewise, this objective was explored in the literature review in chapter two, including the theories of investment. The objective was further accomplished in data analysis, chapter four. Under this objective, the respondents viewed investing decisions under two constructs, investment decisions and assessment of investment decisions (independent variables), financial performance is a dependent variable. The study revealed a strong causal relationship, and a relationship is statistically significant. Beta coefficient measure showed investment decisions to be a significant predictor of financial performance and the relationship was positive ( $\beta = 0.827$ ,  $p < .001$ ).

The positive relationship means that the investing decisions applied at FTR can be used a predictor of the financial performance of the enterprise. The relationship between these two variables indicates that the increase in investment decisions results in the increased financial performance. This finding is consistent with the studies by (Maiyo 2013; Koroti 2014; Nyongesa 2017; Siziba and Hall 2019) However, on the other side the beta coefficient measured for assessment of investment ( $\beta = 0.122$ ,  $P=0.159$ ) which means that it is not a significant predictor of financial performance. This suggests that assessment to investment cannot be a predictor of financial performance.

### **5.3.3 To ascertain the effectiveness of financing decisions on financial performance**

The literature in chapter two reviewed the studies linked to financing decision to ensure the research was aware of the significant studies that are already conducted, and to compare if the findings of the current study agree or differs with the previous studies. The objective was attained through the data collected in chapter four. From the factor analysis, the three factors emerged from the financing decisions construct

namely; source of finance, firm growth and stability and firm debt, they were validated by the CFA analysis.

These three factors were taken as the independent variables while financial performance was the dependent variable. The study revealed a strong causal relationship and a statistically significant relationship between these factors. The beta coefficient measured suggested that source of finance ( $\beta = 0.702, p < .001$ ), firm growth and stability ( $\beta = 0.229, p < .001$ ), and firm debt ( $\beta = 0.345, p < .001$ ) were significant predictors of financial performance, and the relationship was positive. This means that as the source of finance, firm growth and stability, and firm debt increase (agreement that on these factors), financial performance (agreement on financial performance) increases. Overall, the beta coefficient measured for the source of finance suggests that it is the strongest predictor of financial performance.

#### **5.3.4 Objective four: To explore factors influencing capital structure and the effect on financial performance**

This objective was explored in the literature review together with theories relating to capital structure, the factors influencing the capital structure from the previous literatures were discussed in chapter two. The objective was achieved in chapter four through the results revealed in the data analysis. From the factor analysis, the three factors emerged from the financing decisions construct namely; profits, capital structure, and profile of the firm.

These three factors were taken as the independent variables while financial performance was the dependent variable. While the CFA validated profits and capital structure, there was, however, the validity for the profile of the firm should be treated with caution due to failure to support discriminant and convergent validity. The regression coefficient suggested that there is a strong causal relationship in the model, and the relationship is statistically significant ( $r=0.769; p < 0.001$ ). The beta coefficient measured suggests that profits ( $\beta = 0.620, p < .001$ ), and the profile of the firm ( $\beta = 0.290, p < .001$ ) were significant predictors of financial performance, and the relationship was positive. This means that as profits and profile of the firm increase



(agreement that on these factors), financial performance (agreement on financial finance performance) increases.

## **5.4 RECOMMENDATIONS**

The following recommendations are based on the findings of the research study. These recommendations are propositioned to the one of the operational divisions of an SOE in Johannesburg. The recommendations discussions are as follow:

### **5.4.1 Working Capital Management and Financial Performance**

The study revealed that effective practices of working capital management such as preparation of the cash budget on regular bases, holding of cash (for precautionary and operational reasons), adoption of automation of cash management processes amongst others leads to enhanced financial performance. Due to this positive relationship, study recommends that the enterprise maintains such systems as they result in an improved financial management performance. Additionally, the results revealed that the practice of determining target cash balances on a regular basis was not applied in a SOE, this is a gab. It is then recommended that this practice is functional and applied to realise growth in turnover, growth in equity which will lead to enhanced financial performance ultimately.

### **5.4.2 Investing decisions and financial performance**

The study revealed that investment decision practices are employed at a SOE. These investing decision systems include investing in non-current assets, the fully utilisation of those assets, utilisation of NVP utilisation IRR amongst others. The rightful utilisation of these results in improved financial performance. The findings indicate that the firm is not investing in shares on the stock exchange and in real estates. The study recommends that as the firm considers expanding the investment to real estates, shares on stock market, the agreement amongst employees that the firm has cash for long term investments implies that the implementation of this recommendation cannot be a huge challenge. To ensure this recommendation is a success, the firm should ensure they maintain the investment practice of always assessing the investment before investing. By doing this, the financial performance will improve and ultimately the value of the shareholders.

### **5.4.3 Financing decisions and financial performance**

The research study revealed that the firm used both borrowed funds and retained earnings. This signifies that the financial managers of the firm must decide and establish the necessity to strike a balance of when, how much and how to acquire the funds to gather the investment needs. The balance of gathering funds in a way that equity and debt result in a maximised value of the firm is a good financing decision practice. It results in improved financial performance for the firm. This practice is very significant. Therefore, it is recommended that the firm develop new strategies of ensuring that the cost of investments is low while the return on investments is maximised.

### **5.4.4 Capital structure and financial performance**

It is revealed in the results of the study that there is an agreement that the staff members of a SOE prefer that the firm relies on internal generated funds for its investments. This is possibly due to the fact that when the firm does great with funds generated internally, all the returns and profits are kept in the firm.

There is an agreement that the firm gives a certain percentage of its equity if it needs to expand, giving a certain percentage of equity does not guarantee the value maximisation and improved. Therefore, to attain an optimum capital structure, the study recommends the firm maintains the practice of setting a capital structure based on the theory.

## **5.5 RECOMMENDATIONS FOR THE FUTURE RESEARCH**

The concepts highlighted in the research study should provide the foundation basis for more future research studies. Future research is recommended on the following section.

- The study was limited to one of the four operational divisions within a SOE. Therefore, this study recommends that future studies are extended to the other division to investigate the effects of financial management practices on financial performance of the entire enterprise.

- The current study recommends future comparative research studies for other SOEs in other regions within the country and in other countries, this will result in enriched understanding of the right application of financial management practices on improved
- The current study revealed that there are significant financial management practices that are not applied at a SOE. Therefore, the study recommends future research studies investigate each financial management practice effect on financial performance i.e., working capital management practices, investing decision practices and financing decision practices.
- The study was investigating the effects of financial management on financial performance of a SOE. Given the nature of the firm the was conducted on, the study recommends that future research study establish the relationship between corporate governance and financial management adjacent to how it impacts the financial performance. This will establish the insight of the weight the corporate governance has on financial performance and if it's adequate to use financial management practices only as a measure of financial performance.
- This study was quantitative in nature, therefore, for the increased rigour it is recommended that mixed approach employed on future studies.

## **5.6 CONCLUSION**

This chapter covered the accomplishment of the research aim and objectives. The recommendations based on the research objectives were also presented in this chapter. The emphasis of the study limitation and the areas for future research were deliberated on, in the chapter. The study was successful in realisation of it aim and objectives.

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## Appendix A



### LETTER OF INFORMATION

**Title of the Research Study:** Investigating the effects of financial management practices in a State-Owned Enterprise in Johannesburg

**Principal Investigator/s/researcher:** S P A Ntuli, Master of Accounting: Cost and Management

**Co-Investigator/s/supervisor/s:** Dr. ZW Nzuza, PhD

**Brief Introduction and Purpose of the Study:** Financial management remains one of the most important components in any business entity. It is regarded as the lifeblood because almost every business activity is dependent on its finances. This study aims to investigate finance staff perceptions on the effectiveness of financial management practices on improving financial performance of a state-owned enterprise in Johannesburg.

**Outline of the Procedures:** Participants will come from the sections namely budget, capital finance, cost analysis, financial, and revenue and credit management. Data collection will be from individuals within the target population. Data collection will be administered via emailed questionnaires. Due to COVID 19 restrictions and regulations no questionnaire will be hand delivered, but for increasing the participation of the target population, respondents will rather be phoned and asked questions while the researcher fills the form on their behalf. In terms of the emailed questionnaire, a link will be provided that will allow the respondent to access the online-based questionnaire (Through google forms), where a request to fill in the questionnaire will appear. In the case of unsatisfactory response rate from the emailed questionnaire, the process of calling the respondents will begin. The questionnaires will be accompanied by a consent and covering letter. After two to three weeks of the distribution of the original questionnaire, a letter of reminder will be sent to the participants. To answer the questionnaire should not take more 45 minutes.

**Risks or Discomforts to the Participant:** Participation to the study will not cause any discomforts or risks to the participant. There will be no harmful procedures performed during the study.

**Benefits:** The study will enhance the knowledge of the finance staff to be more aware of the financial management practices, the knowledge for the researcher will be expanded as well. Thus encouraging the further advancement of research in the department.

**Reason/s why the Participant May Be Withdrawn from the Study:** Participation to the study will be voluntary therefore, the participant is free to withdraw at any stage without any form of explanation.

**Remuneration:** There will be no payment of any kind for participation in the study.

**Costs of the Study:** There are no costs.

**Confidentiality:** Every participant in this research will be made aware that information remains confidential and anonymous and will only be used for the purpose of this study and nothing else. This will be in writing and assured in the consent form attached on the questionnaire. Anonymity will be maintained, there will be no requirement for any personal information to be supplied by the participant Data collected will be secured and stored in a locked office of the research study personnel at DUT. Access to this information shall only be given to the researcher and the supervisor.

**Research-related Injury:** This research will not cause any injury to the participant; the study will mail involve answering of the questionnaire instrument.

**Persons to Contact in the Event of Any Problems or Queries:**

Please contact the researcher Mr SPA Ntuli cell no. 067 006 5851, my supervisor, Dr ZW Nzuza Tel no. 031 373 5351, or the Institutional Research Ethics Administrator on 031 373 2375. Complaints can be reported to the DVC: Research, Innovation and Engagement Prof S Moyo on 031 373 2577 or [moyos@dut.ac.za](mailto:moyos@dut.ac.za)

**General:**

Potential participants must be assured that participation is voluntary and the approximate number of participants to be included should be disclosed. A copy of the information letter should be issued to participants. The information letter and consent form must be translated and provided in the primary spoken language of the research population e.g. isiZulu.



**CONSENT**

**Statement of Agreement to Participate in the Research Study:**

- I (name \_\_\_\_\_) hereby confirm that I have been informed by the researcher, \_\_\_\_\_ of (name of researcher), about the nature, conduct, benefits and risks of this study - Research Ethics Clearance Number: \_\_\_\_\_,
- I have also received, read, and understood the above written information (Participant Letter of Information) regarding the study.
- I am aware that the results of the study, including personal details regarding my sex, age, date of birth, initials and diagnosis will be anonymously processed into a study report.
- In view of the requirements of research, I agree that the data collected during this study can be processed in a computerised system by the researcher.
  - I may, at any stage, without prejudice, withdraw my consent and participation in the study.
- I have had sufficient opportunity to ask questions and (of my own free will) declare myself prepared to participate in the study.
  - I understand that significant new findings developed during the course of this research which may relate to my participation will be made available to me.

<b>Full Name of Participant</b> /		<b>Date</b> <b>Right</b>	<b>Time</b>	<b>Signature</b>
<b>Thumbprint</b>				

I, \_\_\_\_\_ (name of researcher) herewith confirm that the above participant has been fully

informed about the nature, conduct and risks of the above study.

_____	_____	_____
<b>Full Name of Researcher</b>	<b>Date</b>	<b>Signature</b>
_____	_____	_____
<b>Full Name of Witness (If applicable)</b>	<b>Date</b>	<b>Signature</b>
_____	_____	_____
<b>Full Name of Legal Guardian (If applicable)</b>	<b>Date</b>	<b>Signature</b>

***Please note  
the following:***

Research details must be provided in a clear, simple and culturally appropriate manner and prospective participants should be helped to arrive at an informed decision by use of appropriate language (grade 10 level - use Flesch Reading Ease Scores on Microsoft Word), selecting of a non-threatening environment for interaction and the availability of peer counselling (Department of Health, 2004)

If the potential participant is unable to read/illiterate, then a right thumb print is required and an impartial witness, who is literate and knows the participant e.g. parent, sibling, friend, pastor, etc. should verify in writing, duly signed that informed verbal consent was obtained (Department of Health, 2004).

If anyone makes a mistake completing this document e.g. a wrong date or spelling mistake, a new document has to be completed. The incomplete original document has to be kept in the participant's file and not thrown away, and copies thereof must be issued to the participant.

## Appendix B



12 March 2021  
Sizwe Ntuli  
Durban University of Technology  
Durban  
4000

Dear Sizwe Ntuli

**Permission to Conduct Research: Investigating the effectiveness of Financial Management practices on improving financial performance of Transnet Freight Rail in Johannesburg.**

Permission is hereby granted to you to conduct research on investigating the effectiveness of Financial Management practices on improving financial performance of Transnet Freight Rail, Johannesburg

We duly note that the purposes of the study is strictly academic, and the findings will be submitted to Transnet, and should they relate to the personal health information of employees, the proprietary interventions and the commercialization thereof shall belong to Transnet.

Should you and the University wish to publish this study in any other manner, Transnet will be approached for permission to do so.

In the light of the above, permission to conduct your study is hereby granted. We are looking forward to your findings and recommendations and hope it will contribute to the organization's strategic objectives.

Kind Regards

**Gregory Botha**  
Executive Manager: Talent Management  
Transnet Freight Rail

*2021/03/15*

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Registration Number  
1990/000900/30

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Directors: Dr PS Molefe (Chairperson) PPI Derby\* (Group Chief Executive) UN Fikelepi ME Letlape DC Matshoga Dr FS Mufamadi AP Ramabulana GT Ramphaka LL von Zeuner  
NS Diamini\* (Group Chief Financial Officer)

\*Executive

Interim Group Company Secretary: Ms S Bopape

[www.transnetfreightrail-tfr.net](http://www.transnetfreightrail-tfr.net)

**TRANSNET HAS A 'ZERO GIFTS' POLICY. NO EMPLOYEE IS ALLOWED TO ACCEPT GIFTS, FAVOURS OR BENEFITS**

## Appendix C

### QUESTIONNAIRE

Study title: **Investigating the effects of financial management practices on financial performance of a State-Owned-Enterprise in Johannesburg**

#### SECTION A: Biographical information

##### 1. Indicate your gender

Male	Female

##### 2. Indicate your race

African	Coloured	Indian	White	Other (please specify _____)

##### 3. Indicate your age group

25 years and younger	26 – 35 years	36 – 45 years	46 – 55 years	56 years and above



**4. Indicate your highest qualification**

Matric	Diploma	Degree	Professional Qualification	No qualification	Other (specify)

**5. Indicate the number of years of you have been with the organisation**

0 – 1 years	>1 – 2 years	>2 – 4 years	>4 – 5 years	> 5 years

**6. Indicate the department in which you are based**

CFO & TGC Office	
Capital Development & Treasury	
Enterprise-wide Business Support	
Fixed Assets & Corporate Support	
Revenue and Credit Management	
Budgeting and Finance Services	
Rail Network and Statutory Reporting	
Operational and Support Costing	

**SECTION B: Working Capital Management**

Please tick based on your experience on the frequency of the following management practices

		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
		<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
7.	The business prepares cash budgets on a regular bases.				
8.	The company determines the target cash balances regularly.				
9.	The organisation holds cash (for precautionary and operational reasons).				
10.	My organisation has adopted the automation of cash management processes.				
11.	Cash Surplus is invested in marketable securities.				
12.	My organisation has a credit policy.				
13.	The enterprise is setting up credit guidelines for clients regularly.				
14.	Review of levels of receivables is done frequently.				
15.	Review of levels of bad debts is done frequently.				
16.	The company does the preparation of inventory budgets regularly.				
17.	Review of inventory level is done on a regular basis.				
18.	The company replacement of stock is done frequently.				

19.	WCM results growth in total revenue in the company.				
20.	WCM has growth effect in total assets within the enterprise.				
21.	WCM has resulted in growth in net income in the enterprise.				
22.	The company has growth in market share as result of effective WCM.				

### **SECTION C: Investing decision**

Please tick based on your experience on the frequency of the following management practices

		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
		<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
23.	The company has cash for long term investments.				
24.	The business invests in non-current assets.				
25.	The enterprise utilises non- current assets fully.				
26.	The company uses Net Present Value (NPV) to assess the investments.				
27.	The company uses Pay Back Period to assess the investments.				
28.	The company uses Internal Rate of Return (IRR) to assess the investments.				
29.	The business invests without assessing the investment.				

30.	The business invests in shares on the stock exchange.				
31.	The business invests in real estate.				
32.	The business reviews investment projects after a certain period.				

### **SECTION D: Financing decisions**

Please tick based on your experience on the frequency of the following management practices

		1	2	3	4
		Strongly Disagree	Disagree	Agree	Strongly Agree
33.	Retained earnings.				
34.	Debt (Loan).				
35.	Trade credit, lease, hire purchase.				
36.	External equity financing includes venture capital, private investors, government loans.				
37.	Government subsidies.				
38.	Relationship with the lender.				
39.	Attitude to debt.				
40.	Firm's habitual behaviour to debt.				
41.	Increase firm's value.				
42.	Expansion of the firm.				
43.	Maintain control.				

**SECTION E: Factors Influencing the capital structure of the firm**

Please tick based on your experience on the frequency of the following management practices

		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
		<b>Strongly disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly agree</b>
44.	I prefer that my organisation rely on internal funds.				
45.	To expand the firm, I would suggest the firm gives a percentage of ownership.				
46.	Risk-taking prosperities has an impact in the financing choice of the firm.				
47.	The business has easy access to bank loans.				
48.	The business uses internally generated cash sources and borrowed funds.				
49.	The business uses borrowed funds only.				
50.	The business sets capital structure based on the theory.				
51.	Age of the company.				
52.	Size of the company.				

53.	Profitability of the company.				
54.	External stakeholders.				

## Appendix D



Faculty Research Office  
Durban University of Technology  
7 September 2021

Student: Sizwe Ntuli  
Student Number: 21348937  
Degree: Master of Accounting  
Email: 21348937@dut4life.ac.za  
Supervisor: Dr ZW Nzuzo  
Supervisor email: zwelihle@dut.ac.za

Dear Mr Ntuli

I am pleased to inform you that the Faculty Research Ethics Committee (FREC) following feedback from two reviewers has granted preliminary permission for you to conduct your research **'Investigating the effects of financial management practices in a State-Owned Enterprise in Johannesburg'**.

**When ethics approval is granted:**

You are required to present the letter at your research site(s) for permission to gather data. Please also note that your research instruments must be accompanied by the letter of information and the letter of consent for each participant, as per your research proposal.

This ethics clearance is valid from the date of provisional approval on this letter for one year. A student must apply for recertification 3 months before the date of this expiry.

Recertification is required every year until after corrections are made, after examination, and the thesis is submitted to the Faculty Registrar.

A summary of your key research findings must be submitted to the FRC on completion of your studies.

Kindest regards.

Yours sincerely

Dr Mogiveny Rajkoomar  
FREC Chair  
Faculty of Accounting and Informatics  
Durban University of Technology  
Ritson Campus  
Durban, South Africa  
4001