INFLUENCE OF DEBT EQUITY RATIO ON FINANCIAL DISTRESS MANAGEMENT IN SUPERMARKETS IN NAKURU TOWN, KENYA

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Abstract: Many companies have gone into bankruptcy despite using different prediction models. Despite their good rating, they are still prone to financial distress problems. Thus this study sought to establish the influence of debt equity ratio on management of financial distress in supermarkets in Nakuru town, Kenya. The theory used in the study was Pecking Order Theory employing descriptive research design. The target population included 182 management and finance officers. Nassiuma (2000) formula was used to sample 80 respondents from the 182 management and finance officers. Data was collected through the use of questionnaires. Statistical package for social sciences (SPSS) version 24 was used for analyzing the collected data. Data was analyzed using descriptive statistics and inferential statistics. The study established that debt equity ratio had a positive significant relationship of r=0.538 with financial distress management. The study concluded that debt equity ratio has significant influence on financial distress management in supermarkets in Nakuru town, Kenya. The study recommended that the management in retail chain supermarkets develop policies to guide the determination of debt equity ratio in financing the activities of the business. This will ensure a proper balance between equity and debt which will ensure proper financial distress management.

Keywords: Debt Equity Ratio, Debt Financing, Financial Distress Management, Nakuru Town, Supermarkets.

1. INTRODUCTION

Debt financing is the main element of external financing for corporations raising extra funds after creation (Baltaci & Ayaydin, 2014). There has been a major increase in external financing over the years, particularly evident during the periods of economic expansion of corporations. The majority of corporations looking for external financing options use debt financing rather than equity financing (Goswami & Shrikhande, 2001). They argue that this is the case for most corporations from different industrialized economies of the world since expansion of productive activities, both in local and foreign countries, gives multinational corporations the choice of financing with debt in local and international capital markets.

It is known that commercial banking plays an important role in sustaining financial markets and has a significant impact on the success of the economy of a country. A strong banking sector is able to confront negative shocks and contribute to the stability of the financial system of a country (Mazilla, Yaasmin & Fauziah, 2014). Studies undertaken by Gupta, Srivastava, and Sharma (2014) and Chen (2004) have provided evidence that use of debt financing increases corporate financial distress. However, the findings of these studies are at variance with the findings of studies carried out by Shehla Akhtar, Javed, Maryam, and Sadia (2012), Ogbulu and Emeni (2012) and Ogundipe, Idowu, and Ogundipe (2012) that found use of leverage to mitigate corporate financial distress. On the other hand, studies taken by Ebaid (2009) and Modigliani and Miller (1958) concluded that the way firms are financed does not affect the failure process.
Over the past decades, the world has been witnessing cases of financial distress and subsequent failure among globally reputed corporations. These entities that include: General Motors (2009), Swissair (2001), The CIT Group (2009), Consoer (2002), Pacific Gas & Electric Ltd (2001), Delta Air lines (2005), Parmalat (2003), Enron (2001) and WorldCom (2002) represented the icons of corporate financial stability prior to filing for bankruptcy. Their collapse therefore came with tremendous amazement to researchers, analysts and industry practitioners alike. This undesirable phenomenon motivated finance scholars to commence research aimed at examining the underlying causes of firm failure.

According to Memba and Nyanumba (2013), the financing factor is the main cause of financial distress in the corporate sector. Further, Ohlson (1980), included capital structure among the nine determinants of corporate financial distress. In his MDA model, Altman (1968) also concluded that increasing the level of financial leverage enhances financial distress in the firms. Going by these empirical results, it is logically expected that capital structure would also have an adverse effect on the key indicators of financial distress that have been identified as corporate profitability, liquidity, firm value and investment growth (Outecheva, 2007).

Debt financing has both an advantage and a disadvantage on the growth of corporations and for its strategic investments (O’Brien & David, 2010). According to Fama and French (2002), the benefits of debt financing include the tax deductibility of interest and the reduction of free cash flow problems, while the costs of debt financing include potential bankruptcy costs and agency conflict between stockholders and debt holders. Therefore, in making debt financing decisions, managers try to create a balance between the corporate tax advantages of debt financing and the costs of financial distress that arise from bankruptcy risks and agency costs. Extensive research has been done, trying to give an explanation on how to create the best level of debt financing that takes into account the advantages and the risks, but none has come up with a conclusive theory so far (Baltaci & Ayaydin, 2014).

Abor (2005) argues that the optimal capital structure maximizes profitability and shareholders’ wealth. However, the effect of financial leverage on profitability may be positive or negative based on the productivity in the use of debt financing. A positive relation indicates that when the firms depend on debt as much as firms needs, it will lead to enhance their performance (Aburub, 2012). This explains why a financial manager depends on debt as financing source more than owner equity. Khan (2012) indicates that, if the effective debt ratio is exceeded, the firm would face financial difficulties and the positive effect of financial leverage might turn to negative.

According to Outechever (2007), financial distress is a gradual dynamic process where a firm moves in and out of financial trouble as it passes out through various stages. These stages have specific attributes and consequences as they contribute differently to business failure. Financial distress varies with time. Therefore as a firm enters one state, it does not stay in the same state until it recovers or is liquidated. The change in financial condition triggers the transition from one state of financial distress to another. If these conditions are not aggravated, this may lead the firm into bankruptcy problems. Aasen (2011) points out two types of financial distress costs. Direct bankruptcy costs comprising of legal and administrative costs, and indirect bankruptcy costs which relates to the difficulty of managing a firm during bankruptcy.

Dube (2013) did a study on the impact of debt financing on productivity of small and medium scale enterprises in Zimbabwe, and concluded that productivity in a firm was positively related to the level of debt financing and changes in investment. The study concluded that expenditure on investment was an important determinant of productivity in SMEs operations. The level of debt financing must be moderate to avoid large interest payments which can prevent SMEs from investing using internal sources of finance.

1.1 Global Perspectives

Debt-equity ratio has been used to measure a firm’s level of financial distress. Debt is considered borrowings made by the business from outsiders who are paid a periodic amount of interest on the money borrowed (Madan, 2007). According to Upneja and Dalbor (2011), debt should not be thought as homogeneous. Total debt should be analyzed together with short-term and long-term debt. Study by University of Wisconsin Center for Cooperatives (2012) in the United States shows that up to 50% of a healthy co-op’s capital needs may be financed through external borrowing. In USA, study by Keri (2015) also found that cooperative firms, on average, rely more heavily on equity financing than debt financing, but further, improvements in profitability are associated with increased use of debt. Keri further argues that adequate financial resources are fundamental to operate and grow any cooperative business to a successful venture. He notes that extra capital that comes from external lenders used appropriately can boost up the profitability of the cooperative.
Organizations often use debt when constructing their capital structure, which helps lower total financing cost. In addition to the relatively lower cost of debt financing, using debt has other advantages compared to equity financing, despite potential issues that using debt may cause, such as ongoing financial liabilities and potential bankruptcy risk. In general, using debt helps keep profits within an organization and increases returns on equity for current owners and helps secure tax savings (Majumdar & Sen, 2010).

Moderate debt level improves welfare and enhances growth but high levels can lead to a decline in growth of any enterprise (Stephen-et-al, 2011). Rainhart and Rogoff (2009) argued that debt can only impact positively to the growth of a firm when it is within certain levels. When the ratio goes beyond certain levels financial crisis is very likely. The argument is also supported by Stern Stewart and Company which argues that a high level of debt increases the probability of a firm facing financial distress. Over borrowing can lead to bankruptcy and financial ruin (Stephen-et-al, 2011).

1.2 Regional Perspectives

African continent is also characterized by several contradicting and mixed findings when it comes to debt financing of manufacturing firms. This is despite the regional trading blocs such as East African Community establishing grounds for mutual economic development and favourable grounds for doing business (Karuma et al., 2018). For instance, previous studies on long term debt in Africa have offered mixed findings on the effects of long term debt on financial performance. Ebaid (2009) in his research on the developing market economy of Egypt established that long term debt has a negative effect on return on asset. He also carried out a research study to examine the effect of choice of capital structure on the performance of firms in Egypt. The performance was measured using ROE, ROA, and gross profit margin. Capital structure was measured by short term debt to asset ratio, long-term debt to asset ratio and total debt to total assets. The study showed that capital structure has little to no impact on a firm’s performance.

While carrying out a study on the effect of debt financing on productivity of small and medium scale enterprises in Zimbabwe, Dube (2013) was able to establish that productivity in a firm was related positively to the level of debt financing and fluctuations in investment. The study also determined that the level of debt financing must be reasonable so as to avoid large interest expenditures which can inhibit SMEs from investing using internal sources of finance.

1.3 Local Perspectives

Organizations while funding their expansion and operation strategy often reassess their capital structure by making decisions on whether to issue new shares or get an external loan from other financial institution (Jim, 2015). However firms find it worthy while to borrow since external loans do not erode the ownership of the firm. Efficient management of external loans is therefore necessary as debt affect financial performance of firms. The rate of interest charged on the loan presents a cost to the organization due to interest payments. The amount of interest paid is determined by the duration of repayment (loan tenure).

Langat, et al., (2014) carried a study on the effect of debt financing on the profitability of Kenya Tea Development Authority processing factories and indicated that company performance, which was measured by ROA, was significantly and positively associated with long-term debt and total debt at 5%, whereas short-term debt showed a negative and significant relationship at 5%. The negative relation between short-term debt and the profitability of factories that process tea meant that providing the finance through debts that are short term does not lead to profitability.

On the relationship between capital structure and financial performance of firms listed at the NSE, the study concluded that debt and returns to shareholders are major determinants of financial performance of businesses listed at the NSE. The results obtained showed that there was a negative and significant relationship between financial performances and capital structure. This implied that if a business used more debt as a source of finance it would experience low performance. The study also concluded that firms listed at NSE used more short-term debts than long term.

1.4 Supermarkets in Kenya

The significance of the retail trade as an engine for Kenya’s economic growth is underscored in Vision 2030 where the government targeted to raise the share of products sold through the formal retail channels, such as supermarkets, from 5% in 2007 to 30% by 2012. This was envisaged to trigger an increase in GDP by KES50bn, stimulate consumer demand driven investment opportunities, especially among SMEs and the agricultural sector. This was to be achieved through
attraction of at least three new Retailers with more than 10 stores each in the Kenyan economy. According to the state department for trade report (2017), the Vision 2030 retail sector projected growth has however been elusive. Kenyan retailers face a dynamic and competitive retail environment. With increased globalization, market saturation, and increased competitiveness through mergers and acquisitions, retailers are seeking competitive advantages by better managing their resources (Cherono, 2016).

A survey by Citi Group, a global market research institution released in May 2012 indicated that 70% of shopping in Kenya is done through informal retail channels as compared to South Africa, which was found to be 60% formalized. This shows the great opportunity still unexploited by supermarkets by then. Nakumatt, Uchumi, Choppies (Ukwala), Naivas, and Tuskys are the biggest supermarkets in terms of branch network and shopping traffics (Kamau, 2008). The supermarkets are no longer the niche players catering the high-income consumers in the capital cities but have rapidly expanded to serve middle and low-income consumers. By shifting focus from capital cities to smaller areas, investors get more space due to low cost of land, resources and building materials (Business Daily, 2016).

2. STATEMENT OF THE PROBLEM

Kenyan’s organizations have been faced with financial distress, this either from high debts, declined business operations, lack of cash flow to run its operations and payment of its creditors in time. The CMA statistical bulletin (2015) has outlined some examples of companies that were faced with financial distress which include; Uchumi supermarket Ltd, which reported that the company had a tight cash flow position that made it difficult to maintain its supplier relation (Annual report 2015) and a year later it was put under statutory management after losing its customers to competitors and worsened the cash flow position (Annual report 2016). Hutching Biemer Ltd was put under statutory management due to liquidity problems and financial disclosure (NSE Notice, 2010), Mumias Sugar Co (Annual report, 2013), Kenya Airways (Annual report, 2014) both disclosed their cash flow shortages to settle their debts obligations. Other companies that were suspended from trading in the Nairobi security exchange due to financial shortages includes; A Baumann company (Suspended 2008) and Hutching Biemer (again suspended 2015). In 2017, Nakumatt retail chain have been on the spot light having to close down most of the branches as a result of cash crunch. The question arises on to whether these crises could have been predicted before the actual events. According to Natalia (2007), factors such as large debts, uninformed expansion, competition which is intense, large legal costs are probable causes of financial distress. Adeyemi (2012) noted that lack of adequate capital is one of the major factors leading to financial distress as capital has the capability to absorb losses. Lack of managers with adequate management skills can also lead to corporate failures (Ooghe & Prijcker, 2008). A lot of studies on financial distress have focused on financial institutions while neglecting other sectors. This study seeks to fill this gap by examining the influence of debt as source of capital on financial distress management in supermarkets in Nakuru town, Kenya.

3. OBJECTIVES OF THE STUDY

The study sought to examine the influence of debt equity ratio of financial distress management in supermarkets in Nakuru Town, Kenya.

4. RESEARCH HYPOTHESES

Debt equity ratio has no statistically significant influence on revenue collection in Nyeri County, Kenya.

5. CONCEPTUAL FRAMEWORK
6. THEORETICAL REVIEW

Pecking order Theory

The pecking order theory was developed by the authors Myer and Majluf in 1984. According to this theory firms prefer internal financing to issuing security, and if the need to use external financing arises, a firm will deploy the least risky source of external financing first i.e. debt 1984. The pecking order theory explains how companies make decisions on how to finance, and what kind of influence this has on the capital structure. This theory plays a role when a company is searching for incremental financing. By a shortage in financing a company need to think about what kind of financial resources it will use to fill up the gap. Larger companies have more alternatives for diversified financing. They have a better reputation on the market and it is easier for them to borrow money in comparison with smaller companies (Frank & Goyal, 2003). The theory is based on the fact that there is asymmetry in information between managers of a firm and the investors. From this theory can be mentioned that firms prefer internal financing above external financing. If companies use external financing, firms first favor debt above equity (Baker & Martin, 2011).

Asymmetry in information occurs when managers know more about the firm’s value than the investors on the market. This is not surprising, since the managers work at the company. Hillier et al. (2011) mentioned that managers are not better in determining the value of the company than the investors. This means with the same information, investors may perhaps estimate a more reliable value of the company. When managers are going to issue new equity and the firm is undervalued, it has a negative influence on the value of the existing shareholders. The article of Myers & Majluf (1984) showed that managers act in favor of the existing shareholders. Therefore, when managers assume the firm is undervalued, they do not choose to issue new equity. In this case it is better to use debt, because debt issuers are the first who are paid when the company goes bankrupt. Therefore, they are less interested in valuations of the company. Firms prefer to use the way of financing where they need to provide the least information, this is for companies the use of retained earnings. If that is not possible, they choose debt and the final alternative is to issue equity. This is due to the fact that by using debt, information only has to be provided to the suppliers of debt and by issuing stock information it should be given to all the investors on the market (Myers, 2001).

In the past, the pecking order theory is tested by different researchers. For instance, in the article of Gaud, Hoesli & Bender (2007) where they found internal financing is preferred beyond external financing which is in line with the pecking order theory. Previous studies have found that Dutch companies prefer internal above external financing. This is in accordance with the article of De Haan & Hinloopen (2003) who found that companies with high profits are less likely to use external financing.

The pecking order theory describes how information asymmetry leads to differences in preferences for financing. It is not possible to measure this theory directly, because it is difficult to measure the information asymmetry. Therefore, three variables that are most related to the pecking order theory are chosen.

Internal financing partly depends on the amount of retained earnings. Retained earnings are the amount of profit which is not distributed by the company. The net income of a certain year minus the dividends is the amount of retained earnings in a year (Gibson, 2012). According to Frank & Goyal (2003) firms prefer to finance their company by using retained earnings before using external financing. Hovakimian, Opler & Titman (2001) indicate that profitable firms with more retained earnings become less levered in comparison with unprofitable firms. Therefore, the expectation is that the variable retained earnings is negatively related to leverage.

Titman & Wessels (1988) describe that profitability gives an indication of the retained earnings which are available. As mentioned before, the pecking order theory stated that companies prefer internal above external financing. Therefore, more profitable companies have more internal funds and are less likely to borrow debt (Myers, 1983). This is in line with the results which are found by Deesomsak et al. (2004). They found that there is a significant and negative relation between leverage and profitability.

Companies with more profitability can also use more debt to give a signal to the market about their good performance and the confidence of the management (Chen et al., 1999). Concerning Dutch companies, it was found by Chen and Jiang (2001) that profitability is also negative related to leverage.
Liquidity of a firm can be described as the percentage of the liquid assets divided by the total assets. The liquid assets consist of cash and marketable securities. According to the pecking order theory, firms prefer internal financing, hence with more liquidity, companies need less leverage. The expected relation would be that there is a negative relation between liquidity and leverage (Deesomak et al. 2004). De Haan and Hinloopen (2003) have found a negative relation between liquidity and leverage for Dutch companies.

7. EMPIRICAL REVIEW

7.1 Debt Equity Ratio and Financial Distress Management

Debt-equity ratio has been used to measure a firm’s level of financial distress. Debt is considered borrowings made by the business from outsiders who are paid a periodic amount of interest on the money borrowed (Madan, 2007). According to Upneja and Dalbor (2001), debt should not be thought as homogeneous. Total debt should be analyzed together with short-term and long-term debt. Debt and equity are the two major classes of liabilities, with debt holders and equity holders representing the two types of investors in the firm. Each of these is associated with different levels of risk, benefits, and control. While debt holders exert lower control, they earn a fixed rate of return and are protected by contractual obligations with respect to their investment. Equity holders are the residual claimants, bearing most of the risk, and, correspondingly, have greater control over decisions (Amit & Schoemaker, 2003).

Thomas (2014), on his study on relationship between capital structure and financial performance of the manufacturing companies listed on the Nairobi stock exchange found out that listed companies have an access to funds as compared to other firms which are not listed on the Nairobi Securities Exchange. Companies should maximize this easy access to come up with an optimal Debt – Equity ratio that is profitable to a firm and at the same time is less risky. Lastly firm managers should always take debt-equity ratio as a signal of risk and bankruptcy. This is due to the fact that high leverage implies higher bankruptcy risk.

Wagacha (2001) in a survey of enterprise attitudes found that firms seemed to increase their borrowing after listing. For large listed firms the debt to equity ratios seemed to rise, while for the small firms they fell indicating that market development favoured large listed firms. Ahmadu (2015), on his study on the relationship between financial leverage and financial performance of deposit money banks in Nigeria found out that financial leverage decision is very critical to the survival and performance of banks. Therefore, an appropriate debt- equity mix should be adopted by banks if they must improve their financial performance, survive and remain competitive. The study revealed that a significant negative relationship exists between debt- equity ratio and return on equity, meaning that an increase in debt in the capital structure will result in decline in financial performance as measured by ROE. Banks should therefore substitute an appropriate proportion of debt with equity in its capital structure if ROE is to be improved.

Kaumbuthu (2011) in his study to determine the relationship between capital structure and return on equity for industrial and allied sectors in the Nairobi Securities Exchange during the period 2004 to 2008 supports our findings. Capital structure was proxy by debt equity ratio while performance focused on return on equity. The study applied regression analysis and found a negative relationship between debt equity ratio and ROE. The study focused on only one sector of the companies listed in Nairobi Securities Exchange and paid attention to only one aspect of financing decisions. The results of the study, therefore, may not be generalized to the other sectors. The present thesis covered all non-financial companies listed on the Nairobi Securities Exchange to determine the effects of financing decisions on firm financial performance.

Maina (2014) did a study on the effect of capital structure on financial performance of small and medium enterprises in dairy sector in Kiambu County. The study results indicated that the coefficient for Debt equity ratio was significant at 0.05 with a coefficient of -0.179 which indicates that financial performance of small and medium enterprises in dairy sector in Kiambu County is negatively influenced by debt equity ratio. The study recommended that the small and medium enterprises in dairy sector in Kiambu County to use more of equity in financing its operations and firms to ensure there is adequate current asset for them to remain liquid at all times.

When considering the characteristics of and the various advantages and disadvantages associated with debt and equity it is clear that firms should consider a combination of these different sources of financing. As already mentioned, using only debt in the capital structure can be very risky (especially due to the risk of bankruptcy, because the more debt a firm uses,
the higher the bankruptcy risk) (Huang & Vu Thi, 2003). During periods of high interest rates, it can cause the earnings on an investment to be wiped out by high interest payments (Huang & Vu Thi, 2003). Issuing only shares in an attempt to raise funds can also be a very risky option. The main reason is because a firm must use cash to fund new investments, while shares may not generate cash at the time the firm needs to pay for the new investment (Huang & Vu Thi, 2003).

Theoretical research (Chaplinsky & Niehaus 2003, Rajan & Zingales 2005, Bhaduri 2002) to date has indicated that firms can influence its value by varying its ratio of debt and equity. The main argument is that firms need to find an optimal combination of debt and equity that will ultimately increase the overall value of the firm. Therefore, it appears that the decisions regarding capital structure could impact on the success and future prosperity of the firm.

7.2 Financial Distress Management

Platt and Platt (2006), through an empirical study concluded, that a firm is said to be in financial distress when it gets into a demanding situation whether financially, operationally or legally such that it cannot honour its obligations when they fall due. He provided a multidimensional approach of determining whether an entity is financially distressed by checking whether it has reported negative earnings before special items such interest, depreciation, amortization and tax. This implied that entities, which were financially distressed often, reported a loss from their key operational activities.

Financial distress falls in tight cash situations when the firm is not able to pay the owed amount within the due date. This is in line with the leverage position of a firm. If no interventions are injected, this condition can force a firm into bankruptcy or liquidation (Hu, 2011). This condition arises from wrong financial decisions made by firm managers in the long run operations of a firm (Filberk & Krueger, 2005). Financial distress has affected many investors and huge cash outflow has been lost as a result of this problem, Baker (2011). Business failure is problematic to both developed and developing economies. There is therefore the need to investigate the main determinants of financial distress specifically for developing markets specifically Kenyan economy Kemboi (2012).

Memba and Abuga (2013) carried a study on the causes of financial distress and its effects on firms. The study concluded that financial distress is caused by poor capital decisions, poor internal management shortage of skilled labor and lack of access of credit. Mandi (2014) carried out an assessment using Z score model on Kenyan sovereign risk, concluding that financial factors contribute heavily on firm’s future direction. Talian (2012) concluded that financial variables were more reliable when predicting financial distress in Kenya.

Pasaribu (2008) conducted a study that aimed at establishing the characteristics of financially distressed entities listed at the Jakarta Stock Exchange. His study focused on the entities listed in the trading segment of the Exchange. The empirical results of his study showed that companies that were characterized by a lack of economic value-add, illiquidity, low efficiencies at the operating level as well as high level of debt had a high probability of being financially distressed. He concluded that though there were many possible contributors of financial distress in an organization, high leverage was a key indicator.

Memba and Job (2013) in their study on causes of financial distress in firms financed by ICDC Kenya established that financial distress was largely caused endogenous factors. They identified a number of these factors, the key ones poor corporate governance coupled by weak internal control systems. Other factors included improper use of resources, inappropriate capital structure, difficulties in accessing affordable credit, shortage of capital and poor human resources policies and practices leading to unwarranted legal battles. Their findings were in tandem with the findings of Tan (2012) on financial distress of companies in Asia.

Mahama (2015) assessed the state of financial distress through the application of Altman’s Z-score 10 entities listed at the Ghana Stocks Exchange for the period between 2007 and 2013. He noted signs of financial trouble as; company not timely paying creditors; company being sued in collection matters; company suffering a significant event that is not deemed to recur; company’s bank or secured lender threatening to shut down business operations; a union threatening some type of action against the company; a major supplier threatening to terminate services to the company; company not being able to perform its contracts on time or cannot perform at all; liabilities of the company being greater than its assets; and company’s business model no longer being viable.

Njuguna (2011) conducted a case study on financial distress indicators of corporate failure on Uchumi supermarket limited, a supermarket chain in Kenya that collapsed in 2005. He went further to examine the financial distress indicators...
and moral hazards that Uchumi management faced a few years leading to its collapse. His research findings showed that the collapse was as a result of unprofessionalism in the management, high operating costs, negative net cash flow, negative net current assets and unfavorable currency movements among others. As a remedy, he pointed out that, the government should not have continued to influence key decisions without involving the shareholders even after the supermarket had been listed on the Nairobi Stock Exchange (NSE) making it a publicly owned company. Secondly, he noted that the grand strategy was ill timed in that too many branches were opened carelessly pushing up the operational costs. Lastly, Njuguna noted that an aggressive turnaround strategies that would include closing unprofitable branches, retrenching some redundant workers and overhauling the purchasing system as important for proper results to have realized.

8. RESEARCH METHODOLOGY

The study adopted research designs. A research design is the arrangement of conditions for data collection and analysis of data in a manner that aim to combine relevance to research purpose with economy in research procedure (Kothari, 2004). The target population was a total of 182 management and finance employees in supermarkets in Nakuru town, Kenya. The study employed simple random sampling technique to select the 80 respondents from the 182 management and finance employees in supermarkets in Nakuru town, Kenya. Structured questionnaires were used to collect data from the sampled respondents. This instrument was picked on the basis that it managed to capture data relevant to the research objectives. The Statistical Package for Social Sciences (SPSS) tool aided in data processing and analyzing. The findings obtained were presented in form of tables that reflected both descriptive and inferential statistical results.

9. FINDINGS AND DISCUSSIONS

A total of 80 questionnaires were distributed to the respondents for them to fill. Out of the 80 questionnaires, 65 of them were properly filled and returned. This represented a response rate of 81.2% which can be characterized as an excellent indicator that the results are externally valid and therefore can be generalized. Essentially the response rate that every researcher would pursue would be 100%. In reality however this is not possible due to sampling measurement and coverage errors. A response rate below 51% is considered inadequate in social sciences (Pinsonneault & Kraemer, 1993). Babbie (1990) suggested that a response rate of 60% is good; 70% is very good.

9.1. Descriptive Statistics Results

9.1.1 Debt Equity Ratio

The study sought respondents’ views regarding debt equity ratio in supermarkets in Nakuru town. Percentages means and standard deviations were computed and presented as shown in the table Table 1.

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<th>Table 1: Debt Equity Ratio</th>
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<tr>
<td>i. Company's capital structure is composed of short term and long term debt</td>
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<td>ii. Supermarkets use debt-equity ratio as sign of bankruptcy risk</td>
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<td>iii. The company has adopted debt-equity mix to improve their financial performance and remain competitive.</td>
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<td>iv. Company have access to funds which makes it easier to come up with an optimal debt-equity ratio that is profitable and less risky</td>
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<tr>
<td>v. Supermarkets prefer equity financing to ensure there is adequate current assets for them to remain liquid</td>
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<tr>
<td>vi. The company uses an optimal combination of debt and equity to increase their overall value of the business.</td>
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<td>Valid N (listwise)</td>
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From the table, majority of the respondents comprising 41.5% strongly agreed and 38.5% agreed that the company’s capital structure is composed of short term and long term debt registering a mean of 4.11 and a standard deviation of 1.002. Further, 29.2% of the respondents were undecided on whether supermarkets use debt-equity ratio as a sign of bankruptcy risk, 27.7% of the respondents agreed while 21.5% of the respondents strongly agreed with the assertion registering a mean of 3.42 and standard deviation of 1.198. In addition 32.3% of the respondents were undecided that the company has adopted debt-equity mix to improve their financial performance and remain competitive though 29.2% of the respondents strongly agreed with the assertion and 21.5% agreed registering a mean of 3.60 and a standard deviation of 1.031. Further 32.3% and 20.0% of the respondents agreed and strongly agreed respectively that supermarkets prefer equity financing to ensure there is adequate current assets for them to remain liquid registering a mean of 3.45 and a standard deviation of 1.159 on average mean of 3.57 and a standard deviation of 1.143. On the other hand 40.0% of the respondents agreed that the company have access to funds which makes it easier to come up with an optimal debt–equity ratio that is profitable and less risky.13.8% of them also strongly agreed while 26.2% of the respondents were undecided registering a mean of 3.42 and standard deviation of 1.198. In addition 32.3% of the respondents strongly agreed with the assertion and 21.5% agreed registering a mean of 3.45 and a standard deviation of 1.002.

9.1.2 Financial Distress management

The study sought to establish respondents’ views regarding financial distress management in supermarkets in Nakuru town, Kenya. The percentages, means and standard deviations were established in this regard. The findings from the analysis were as presented in table 2.

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<th>SA (%)</th>
<th>A (%)</th>
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<tbody>
<tr>
<td>i.</td>
<td>40.0</td>
<td>41.5</td>
<td>10.8</td>
<td>7.7</td>
<td>0</td>
<td>4.14</td>
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<td>ii.</td>
<td>10.8</td>
<td>29.2</td>
<td>24.6</td>
<td>26.2</td>
<td>9.2</td>
<td>3.06</td>
<td>1.171</td>
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<td>iii.</td>
<td>6.2</td>
<td>21.5</td>
<td>26.2</td>
<td>24.6</td>
<td>21.5</td>
<td>2.66</td>
<td>1.215</td>
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<td>iv.</td>
<td>18.5</td>
<td>26.2</td>
<td>20.0</td>
<td>23.1</td>
<td>12.3</td>
<td>3.15</td>
<td>1.314</td>
</tr>
<tr>
<td>v.</td>
<td>16.9</td>
<td>29.2</td>
<td>32.3</td>
<td>12.3</td>
<td>9.2</td>
<td>3.32</td>
<td>1.174</td>
</tr>
<tr>
<td>vi.</td>
<td>10.8</td>
<td>13.8</td>
<td>13.8</td>
<td>26.2</td>
<td>35.4</td>
<td>2.38</td>
<td>1.377</td>
</tr>
<tr>
<td>vii.</td>
<td>16.9</td>
<td>23.1</td>
<td>13.8</td>
<td>27.7</td>
<td>18.5</td>
<td>2.92</td>
<td>1.395</td>
</tr>
</tbody>
</table>

Valid N (listwise) | 65

From the table, majority of the respondents 41.5% and 40.0% agreed and strongly agreed that financial distress in supermarkets arise due to poor capital decisions hence registering a mean of 4.14 and a standard deviation of .899. 29.2% of the respondents agreed that supermarkets operates on high operating costs leading to financial distress of the business, while 26.2% of the respondents disagreed and 24.6% of them undecided registering a mean of 3.06 and a standard deviation of 1.171. On the other hand, 26.2% of the respondents were undecided whether the company is unable to pay their debts within due date, while 24.6% disagreed and 21.5% strongly disagreed with the assertion hence registering a mean of 2.66 and a standard deviation of 1.215. In addition 26.2% of the respondents agreed that there are poor internal control systems on cash management in the company leading to financial distress, while 23.1% disagreed and 20.0% were undecided with the assertion hence registering a mean of 3.15 and a standard deviation of 1.314. On average mean of 3.32 and a standard deviation of 1.174. 32.3% of the respondents were undecided while 29.2% agreed that non-current assets are more than the current assets registering a mean of 3.32 and a standard deviation of 1.174. 35.4% of the respondents strongly disagreed and 26.2% disagreed that the supermarkets retains more cash at hand than at bank, while 13.8% agreed
and were undecided with the assertion registering a mean of 2.92 and a standard deviation of 1.395. Finally, 27.7% of the respondents disagreed that company’s liabilities are greater than the assets, while 23.1% agreed with the assertion, registering a mean of 2.92 and a standard deviation of 1.395. Respondents registered cohesiveness in the first item returning standard deviation value less than one while showing greater diversity in their opinions returning standard deviation values greater than one in the other items.

Mahama (2015) assessed the state of financial distress at the Ghana Stocks Exchange for the period between 2007 and 2013. He noted signs of financial trouble as; company not timely paying creditors; company being sued in collection matters; company suffering a significant event that is not deemed to recur; company’s bank or secured lender threatening to shut down business operations; a union threatening some type of action against the company; a major supplier threatening to terminate services to the company; company not being able to perform its contracts on time or cannot perform at all; liabilities of the company being greater than its assets; and company’s business model no longer being viable.

9.2 Correlation Analysis

9.2.1 Debt Equity Ratio and Financial Distress Management

The study sought to examine whether there existed any significant relationship between debt equity ratio and financial distress management. The composite mean score for debt equity ratio were correlated with composite mean scores for financial distress management. Pearson product moment correlation coefficient was used to establish the relationship. Findings from the analysis were as presented in table 3.

Table 3: Debt Equity Ratio and Financial Distress Management

<table>
<thead>
<tr>
<th>Debt Equity Ratio</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.538**</td>
<td>.000</td>
<td>65</td>
</tr>
</tbody>
</table>

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

Findings from the table indicate an average positive significant (r=.538, p=.000) relationship between debt equity ratio and financial distress management. As such, the study observed that debt equity ratio moderately determines effective management of financial distress. Enhancing a balanced debt equity ratio has a direct correlation with successful financial distress management. Hence, the status of debt equity ratio in supermarkets cannot be overlooked in managing financial distress. The findings were in agreement with findings of Ahmadu (2015), on his study on the relationship between financial leverage and financial performance of deposit money banks in Nigeria who found out that financial leverage decision is very critical to the survival and performance of banks. Therefore, an appropriate debt- equity mix should be adopted by banks if they must improve their financial performance, survive and remain competitive. The study revealed that a significant negative relationship exists between debt- equity ratio and return on equity, meaning that an increase in debt in the capital structure will result in decline in financial performance as measured by ROE. Banks should therefore substitute an appropriate proportion of debt with equity in its capital structure if ROE is to be improved.

9.3 Hypothesis Testing

The hypothesis Hₐ₁ indicated that there is no significant influence of equity debt ratio on financial distress management in Nakuru town, Kenya. Simple linear regression analysis gave the following results.

Table 4: Model Summary on Debt Equity Ratio

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.538a</td>
<td>.289</td>
<td>.280</td>
<td>.21183</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Debt Equity Ratio

From the model summary, the R-squared value was .289. This meant that debt equity ratio could significantly account up to 28.9% of the total variance in financial distress management in Supermarkets in Nakuru town, Kenya. As such, a change in debt equity ratio would lead to up to 28.9% variation in financial distress management. The analysis of variance gave results shown in Table 4.15.
Table 5: ANOVA\textsuperscript{a} on Debt Equity Ratio

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>5.014</td>
<td>1</td>
<td>5.014</td>
<td>9.889</td>
<td>.000\textsuperscript{b}</td>
</tr>
<tr>
<td>Residual</td>
<td>31.922</td>
<td>63</td>
<td>.507</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>36.936</td>
<td>64</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{a} Dependent Variable: Financial Distress Management  
\textsuperscript{b} Predictors: (Constant), Debt Equity Ratio

The table indicated an F-value (F\textsubscript{(1, 63)} = 9.889, p = .000) which was significant at p<.05 level of significance. This meant that debt equity ratio significantly influenced financial distress management. Therefore, the null hypothesis H\textsubscript{01} that, debt equity ratio has no significant influence on financial distress management in super markets in Nakuru town Kenya was rejected. The researcher concluded that debt equity ratio have a significant influence on financial distress management in supermarkets in Nakuru town, Kenya.

10. CONCLUSIONS AND RECOMMENDATIONS

10.1 Conclusions of the Study

The study concluded that debt equity ratio has significant influence on financial distress management in supermarkets in Nakuru town, Kenya. It was established that debt equity ratio had a significant relationship as well as a significant influence on financial distress management. Hence, a balanced debt equity ratio goes a long way in determining success in financial distress management in supermarkets in Nakuru town, Kenya.

10.2 Recommendations of the Study

The study recommended that the management in retail chain supermarkets develop policies to guide the determination of debt equity ratio in financing the activities of the business. This will ensure a proper balance between equity and debt which will ensure proper financial distress management.

REFERENCES


