Financial distress and its repercussions on the manufacturing sector in Zimbabwe

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ABSTRACT
The study focuses on establishing the causes of financial distress and its impact on the performance of firms in the manufacturing sector in Zimbabwe. The sector plays critical roles in the economy through its linkage to agriculture, GDP, export earnings and employment creation. The study was based on 140 sampled companies in the sector. The findings revealed that there is evidence that the firms in the sector are financially distressed, which is caused by; cost and shortage of capital, cost of importing raw materials, inadequate and costly infrastructure (power and water). Financial distress resulted in deteriorating company performance, company closures, job losses and failure to service loans from banks by companies. The study concluded that the majority of firms in the manufacturing sector are financially distressed and such distress has negative effects on company performance. For the solutions to the problem, the study recommended that firms should raise cheaper capital from other sources other than borrowing, invest in new technology and close under-performing units. The government should also play its part through rehabilitation of infrastructure (power and water), implementing protectionist measures to protect local firms, provide cheap and long term finance and revamp local value chains.

Key words: Financial distress, bankruptcy, performance, manufacturing sector, company closures

1. INTRODUCTION
This study focuses on the repercussions of financial distress on manufacturing firms in Zimbabwe. Financial distress or economic bankruptcy is often described as one of the three circumstances as alluded to by Pastena and Ruland (1986, p.289). These are: (i) the condition of negative net worth, (ii) the inability to pay debts as they come due (insolvency), and (iii) a legal definition under which a firm continues to operate or liquidates under court protection (legal bankruptcy). Donaldson (1986) and Giroux and Wiggins (1984) stress on the belief that firms tend to enter a cycle of financial distress years before bankruptcy is declared and that various economic events occur during this period before bankruptcy. For example, loan default often occurs up to three years before bankruptcy (Giroux & Wiggins, 1984).

Previous studies have attributed financial distress to a number of factors that include: economic turbulence, change in demand, high debt, restrictive monetary policy, high interest rates, inadequate capital structure and poor financial management (Pompe & Bilderbeek 2005; Denis & Denis 1995; Sheppard & Chowdhury, 2005; Segarra & Callejo, 2002). Financial distress and bankruptcy are disruptive and costly and these two have got a very huge impact on the employees, shareholders, customers, suppliers, communities and the financial entities.

The objectives of the study were to establish the causes of financial distress and its impact on the performance of the companies with particular attention to the manufacturing sector. This was necessitated by the need to proffer solutions for the struggling companies as there is evidence that corporates are battling to remain afloat. Since 2011, a total of 458 companies closed shop in the manufacturing sector, rendering 9,988 people jobless. Companies are also operating at low capacity with the CZ1 manufacturing sector survey for 2014 concluding that machinery usage stood at 36.9% from 39.6% in 2013.
1.1 Background
1.1.1 Background to Zimbabwean economy
Zimbabwe's economy remains in a fragile state, with an unsustainably high external debt and massive deindustrialisation. The past decade has also seen the informal sector growing rapidly. The average GDP growth rate of 7.5% during the economic rebound of 2009-12 is moderating. In the recent 2014 mid-term fiscal policy the Minister of Finance projected GDP growth rate to be around 3%. This economic slowdown is due to a host of challenges as identified by the African Development Bank (2013) which include tight liquidity, high cost of capital, outdated technologies and reduced product demand has also declined in line with disposable incomes and influx of imported products. There are also structural bottlenecks that include, poor management, power shortages and infrastructure deficits, corruption and a volatile and fragile global financial environment.

The constrained fiscal space has forced the government to adopt a contractional fiscal policy stance, while the use of the multi-currency regime limits the use of monetary policy instruments. World Bank (2004), noted that the recovery of the economy remained uncertain as a number of issues continued to hold back prospects for sustainable economic growth and these issues relate to the:

- easing of international prices of minerals
- unbalanced external position
- liquidity challenges and very high real interest rates on short-term credit
- ballooning wage bill in the public sector and the possible fiscal slippage
- ailing and deficient infrastructure (lack of resources to rehabilitate infrastructure) and unreliable power supply
- possible compression of exports on the back of the still fragile global economy
- potential destabilizing effects of the indigenization program on the economy, and
- disorderly unwinding of vulnerabilities in the banking sector.

As shown by table 1 below, inflation trends maintained an upward momentum during the Zimbabwe dollar era, reaching 231 million percent in 2008.

<table>
<thead>
<tr>
<th>ZWD Era Year</th>
<th>Inflation</th>
<th>Multi-currency regime Year</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>132%</td>
<td>2009</td>
<td>-7.7%</td>
</tr>
<tr>
<td>2005</td>
<td>586%</td>
<td>2010</td>
<td>3%</td>
</tr>
<tr>
<td>2006</td>
<td>1282%</td>
<td>2011</td>
<td>4.9%</td>
</tr>
<tr>
<td>2007</td>
<td>66212%</td>
<td>2012</td>
<td>2.9%</td>
</tr>
<tr>
<td>2008</td>
<td>231150889%</td>
<td>2013</td>
<td>0.33%</td>
</tr>
</tbody>
</table>

Source: Zimstat (2014)

The introduction of the multicurrency regime in 2009 resulted in sharp drop in the inflation figures to single digits. As the trend shows in Table 2 below, the Zimbabwean economy is slowly moving into deflation. Crotty (2002) defines deflation as a decrease in the general price level of goods and services. Table 2 below highlights the negative inflation figures Zimbabwe has experienced since February 2014 at -0.49%. The table shows continued negative inflation figures until June 2014.
Table 2: Zimbabwe month on month inflation trend for period Jan 2014-Jun 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>All Items CPI</th>
<th>Monthly Price Increases</th>
<th>Year On Year Price Increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>Jan</td>
<td>100.48</td>
<td>0.14%</td>
<td>0.41%</td>
</tr>
<tr>
<td></td>
<td>Feb</td>
<td>100.53</td>
<td>0.05%</td>
<td>-0.49%</td>
</tr>
<tr>
<td></td>
<td>Mar</td>
<td>100.30</td>
<td>-0.22%</td>
<td>-0.91%</td>
</tr>
<tr>
<td></td>
<td>Apr</td>
<td>100.89</td>
<td>0.58%</td>
<td>-0.26%</td>
</tr>
<tr>
<td></td>
<td>May</td>
<td>100.75</td>
<td>-0.13%</td>
<td>-0.19%</td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>100.73</td>
<td>-0.03%</td>
<td>-0.08%</td>
</tr>
<tr>
<td></td>
<td>July</td>
<td>100.74</td>
<td>0.01%</td>
<td>0.31%</td>
</tr>
<tr>
<td></td>
<td>August</td>
<td>100.43</td>
<td>-0.31%</td>
<td>0.15%</td>
</tr>
</tbody>
</table>

Source: [http://www.rbz.co.zw/about/inflation.asp](http://www.rbz.co.zw/about/inflation.asp) (2014)

The negative inflation figures are as a result of tight liquidity in the economy (Chinamasa, 2014). The liquidity crunch which is affecting the economy is expected to continue and as a result financial assistance from the banks to manufacturing companies continues to shrink. The business thus needs a high cash turnover in order to meet its short term needs. The cash conversion cycle needs to be monitored tightly as debtors days continue to increase. Disposable income has also been affected with many people losing their jobs. The July 2013 National Social Security Authority (NSSA) Harare Regional Employer Closures and Registrations Report for the period July 2011 to July 2013 shows that 711 companies in Harare have closed down, rendering 8 336 individuals jobless.

1.1.2 Gross Domestic Product

In response to the stable and favourable economic conditions that included single digit inflation and stable currency, the country has achieved a positive GDP growth from a persistent negative growth that the country experienced prior to the multi-currency regime.

Figure 1: Zimbabwe GDP growth rates for period 2002 to 2013


Figure 1 shows an upward trend in growth rates from 2009 to 2011. It is important to note that the growth rate has been slowing down from 2012 onwards and this could be partly explained by the slowdown in the growth of key sectors such as manufacturing and agriculture.
1.1.3 Exports and Imports-Trade
The decline in performance of the key sectors of the economy has resulted in a supply gap in the economy resulting in imports growing faster than exports. As shown in Fig 2 below, imports have been growing faster than exports since 2008 to date.

Figure 2: Imports and exports growth

![Imports and exports growth](image)

Source: Ministry of Finance and Economic Development (2014 Budget)

The growing trade gap has in turn increased the current account deficit balance as depicted by Figure 3 below.

Figure 3: Zimbabwe trade surplus/deficit

![Zimbabwe trade surplus/deficit](image)

Source: Ministry of Finance and Economic Development (2014 Budget)

1.1.4 Manufacturing sector
1.2.4.1 Growth
The manufacturing sector plays an important role in the economy of Zimbabwe. The sector contributes significantly to GDP, export earnings and employment. It is well diversified and has strong synergies with other sectors of the economy particularly agriculture, mining, services and construction.

Growth in the sector has been slow owing to a plethora of manacles besieging the sector. The year 2009 registered a high growth of 17% as activity was coming off a low base. Growth in 2012 and 2013 was low at 2.3% and 1.5% respectively. The Ministry of Finance (2013) highlighted tight liquidity as the main reason
for the slow growth. Projections for 2014 and 2015 are highly optimistic at 3.2% and 6.5% based on the assumption that liquidity flows would have improved in the local market which is highly unlikely.

Figure 4: Slackening Growth Rate

Companies are facing a host of challenges in a bid to keep their businesses afloat. A study by the CZI survey of 2013 highlights seven key constraints to the operations of firms in the manufacturing sector. These include; working capital constraints, low aggregate demand as well as strong competition from imports. Use of Old machinery, unreliable supply of utilities such as electricity and water, shortage of key raw materials together with the high cost of doing business are the other challenges. Table 3 below highlights findings from the CZI 2013 manufacturing sector survey.

Table 3: Major Business Constraints.

<table>
<thead>
<tr>
<th>Constraint</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working</td>
<td>40.20</td>
</tr>
<tr>
<td>Low Demand</td>
<td>17.60</td>
</tr>
<tr>
<td>Import Competition</td>
<td>12.50</td>
</tr>
<tr>
<td>Antiquated Machinery</td>
<td>9.80</td>
</tr>
<tr>
<td>Unreliable Utilities</td>
<td>8.80</td>
</tr>
<tr>
<td>Shortage of Raw Materials</td>
<td>5.90</td>
</tr>
<tr>
<td>High Cost Structure</td>
<td></td>
</tr>
</tbody>
</table>

Source: CZI 2013 Manufacturing Sector Survey

Evidence from companies listed on the Zimbabwe Stock Exchange also supports the view that manufacturing companies are experiencing financial distress. Under financial distress, a firm’s income is not enough to pay back what it has borrowed (Carter & Auken. 2006). Since the adoption of multiple currencies, five major companies (Chemco, Cairns, Steelnet, Caps and Gulliver) have been delisted from the local bourse owing to viability challenges. In addition to delisting, some companies have gone into liquidation and judicial management.
Capacity utilization refers to the extent to which an enterprise or a nation actually uses its installed productive capacity. It also refers to the relationship between actual output that is produced with the installed equipment and the potential output which could be produced, if capacity was fully used another day (Crotty 2002).

Since the adoption of the United States dollar in 2009, capacity utilization in the manufacturing sector had been on an upward trend before dipping in 2012 and 2013. In 2009, capacity utilization rose to 30% from 10% in 2008, a further improvement was recorded in 2010 and 2011 when machinery utilization closed the year at 43.7% and 57.2% respectively. Thereafter, it declined to 44% and 39.6% in 2012 and 2013 respectively. Estimates for 2014 have shown that capacity utilization might close the year at 30%. The graph below illustrates trends in capacity utilization since the adoption of multiple currencies:-

![Figure 5: Capacity Utilization.](image.png)

Source: CZI Surveys (2013)

1.3 Problem Statement
Since the adoption of multiple currency regime in March 2009, the majority of companies in the manufacturing sector continue to struggle as evidenced by low levels of capacity utilization. The CZI 2014 manufacturing sector survey concluded that average capacity utilization declined to 36.3% from 39.3% in 2013. Some companies are operating at capacity levels as low as 10%.

A number of firms are failing to service their debt obligations and this has resulted in the number of company collapses going up. Some which were once good performers have gone into judicial management, some are being liquidated and others have negotiated schemes of arrangement with creditors. About 458 companies in the manufacturing sector have closed shop and a total of 9,978 employees were retrenched for the period between 2011 and 2014. The net effect of all this is the spike in the level of non-performing loans in the banking sector. These challenges are impacting negatively on economic growth. Contribution of the sector towards GDP has decreased. Closure of companies also impacted negatively on income and corporate tax flows to Government. The purpose of this study was, therefore, to identify the causes of financial distress as well as to analyse its impact on the performance of manufacturing firms.

1.4 Objectives
The study seeks to achieve the following objectives:

- To identify the causes of financial distress;
To establish the implications of financial distress to the manufacturing sector; and
To proffer solutions to the problems causing financial distress

2 LITERATURE REVIEW

Financial distress and bankruptcy has mostly been interpreted to mean the same thing. Platt (2006) distinguished the two when he said companies in bankruptcy must work through the courts to restructure their operations and or financial structure to emerge from the process as a viable company whereas companies in financial distress, by contrast, are not yet so severely disabled that legal recourse is required. When a company is financially distressed, it can take necessary steps to remedy its precarious situation and such actions include hiring turnaround managers, disposing of assets, and improving the working capital management (Hofer, 1980).

The literature on financial distress usually tends to put more focus on the examination of financial restructurings or the management turnover (John, 1992). Hill et al. (1996) moved beyond just bankruptcy so as to also consider multiple states of corporate decline which include financial distress. A more recent example was a multi-industry financial distress model for the US companies by Platt and Platt (2006) where they found that companies may experience financial distress as a result of poor operating results or as a result of the consequences caused by external forces whereas bankruptcy has been termed as an action that companies take to protect their assets often as a result of balance sheet issues.

Platt (2006) summarises the known academic descriptions of financial distress as:

- Evidence of layoffs, restructurings, or missed dividend payments, used by Lau (1987).
- A low interest coverage ratio, used by Asquith, Gertner and Scharfstein (1994).
- Cash flow less than current maturities of long-term debt, used by Whitaker (1999).
- The change in equity price or a negative EBIT, used by John, Lang, and Netter (1992).
- Negative net income before special items, used by Hofer (1980).

2.1 Causes of Financial Distress

A case study by Lizal (2006) on financial distress based on the Czech Republic reviewed three models that were used to determine the causes of distress and these are: (i) the Neoclassical model which reviewed that wrong mixture of assets and inappropriate allocation of assets can cause distress, (ii) the Financial model which reveals that the right mixture of assets but wrong or bad financial structure with liquidity constraints can cause financial distress and (iii) the Corporate governance model which reveals that the right mixture of assets and financial structure but is badly managed can cause financial distress. Here the x-inefficiency theory then drives the firm out of the market as a consequence of unsolved problems in corporate governance.

Theodossiou et al. (1996) and Whitaker (1999) provide some evidence that financial distress arises in many cases from endogenous risk factors, such as mismanagement, high leverage, and a non-efficient operating structure in place. Bibeault (1982) examines the proportion of every risk factor of financial distress and revealed five significant sources of external causes which are: economic change, competitive change, government constraints, social alterations and technological change. Bibeault's survey of 81 companies reflected that about 41% of the companies experience declining performance as a result of bad macroeconomic conditions, 31% of the firms are subject to distress because of a changing competitive environment, 13% face regulatory restrictions on expansions in strategic sectors of the economy and 15% suffer because of social or technological change. His overall survey result shows that 80% of all cases of financial distress emanated from the management factor, namely managerial incompetence. Altman (1983) reported that management inadequacy is the main source of financial distress.

2.2 Implications of Financial Distress

Highlighting more on the implications, financial distress is characterized by a sharp decline in the firm’s performance and value, a drop in sales, changes in operating income, and negative stock returns. Whitaker
Financial distress and its repercussions on the manufacturing sector in Zimbabwe

(1999) reports that in early stages of financial distress, operating income falls to 46.32% below industry average. Many researchers have analysed the effect of financial distress on the competitive position of a distressed company as leading to: the market share falling substantially behind that of its rivals and below the market average, erosion of the trust of the stakeholders, the employees (the so-called intellectual capital of the firm) changing jobs to competitors and the firm stands in a liquidity squeeze thus resulting in the closure of the company, if appropriate corrective action is not taken.

2.3 The Altman Z-score Model
The model is widely recognised for assessing financial distress. The Z-score model uses several ratios to generate a prediction of the likelihood of the company going into a financial distress as well as bankruptcy (Altman, 1968). It also makes use of multiple discriminant analysis to predict the financial distress of a company. According to the rules of calculating Z-Score, there are five financial ratios which include the working capital to total assets ratio, retained earnings to total assets ratio, earnings before interest and tax to total assets ratio, sales to total assets ratio and the market value of equity to book value of total long term liabilities. The original Z-score formula was as follows (Altman, 1968):

\[ Z = 1.2T_1 + 1.4T_2 + 3.3T_3 + 0.6T_4 + 0.99T_5 \]  \hspace{1cm} (1)

Where:
- \( T_1 = \text{Working Capital}/\text{Total Assets} \). Measures liquid assets in relation to the size of the company.
- \( T_2 = \text{Retained Earnings}/\text{Total Assets} \). Measures profitability that reflects the company's age and earning power.
- \( T_3 = \text{Earnings Before Interest and Taxes}/\text{Total Assets} \). Measures operating efficiency apart from tax and leveraging factors. It recognizes operating earnings as being important to long-term viability.
- \( T_4 = \text{Market Value of Equity}/\text{Book Value of Total Liabilities} \). Adds market dimension that can show up security price fluctuation as a possible red flag.
- \( T_5 = \text{Sales}/\text{Total Assets} \). Standard measure for total asset turnover (varies greatly from industry to industry).

This study used the modified Z-Score model for private firms which is explained below.

\[ Z' = 0.717T_1 + 0.847T_2 + 3.107T_3 + 0.420T_4 + 0.998T_5 \]  \hspace{1cm} (2)

Where:
- \( T_1 = (\text{Current Assets} - \text{Current Liabilities})/\text{Total Assets} \)
- \( T_2 = \text{Retained Earnings}/\text{Total Assets} \)
- \( T_3 = \text{Earnings Before Interest and Taxes}/\text{Total Assets} \)
- \( T_4 = \text{Book Value of Equity}/\text{Total Liabilities} \)
- \( T_5 = \text{Sales}/\text{Total Assets} \)

The model states that a score less than 1.88 shows that a company is likely to face financial distress in the near future, a score of more than 2.99 shows that a company is financially sound and therefore efforts should be put to maintain or improve the score. Score between 1.88 and 2.99 is known as a grey area where the company is neither financially sound or financially distressed, management of the companies are expected to put more efforts to make sure that the company does not fall on the negative side.

3. RESEARCH METHODOLOGY
The aim of this section is to explain the methodology used to gather the data. It looked at the research design, data collection, population, sampling and data analysis method.
3.1 Research Design
This study used both qualitative and quantitative paradigms (AS de Vos et al., 2012, p. 63). However, Silverman (2000) argues that these two approaches are often evaluated differently and quantitative approach is more superior because it is value free. Combining both techniques makes the research as exhaustive as there are some effects that cannot be quantified but can be explained from a qualitative perspective.

3.2 Population and sampling procedure
The study analysed the manufacturing companies both listed (on the Zimbabwe Stock Exchange) and those unlisted. Stratified random sampling on the basis of industrial structural conduct in Zimbabwe was used. A total of 200 companies were considered to be representative enough.

3.3 Data Sources
This research used both primary and secondary data. Primary data is data expressly collected for the purpose at hand which is gathered directly from the elements of the population. Its advantage is that the exact information sought is obtained. The primary data for this research was collected using questionnaires and interviews. Secondary data is data that is collected from records holding the primary data (Salant and Dillman, 1994). The main sources of secondary data for this study were financial statements, monetary policy, fiscal policy, CZI manufacturing survey reports and ZIMRA reports.

4. DATA PRESENTATION AND ANALYSIS
4.1 Response Rate

Table 4: Questionnaire Response Rate

<table>
<thead>
<tr>
<th>Response Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of questionnaires issued</td>
</tr>
<tr>
<td>Number of questionnaires completed</td>
</tr>
<tr>
<td>Response rate</td>
</tr>
</tbody>
</table>

Table 4 shows that out of 200 questionnaires administered, 140 were returned well completed representing a response rate of 70%.

A more comprehensive look at the response rate is shown on a sector basis as outlined in Table 5.

Table 5: Sub sector response rate

<table>
<thead>
<tr>
<th>Sector</th>
<th>Questionnaires Administered</th>
<th>Questionnaires Returned</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food and Beverages</td>
<td>20</td>
<td>10</td>
<td>50%</td>
</tr>
<tr>
<td>Cables and Electrical</td>
<td>20</td>
<td>10</td>
<td>50%</td>
</tr>
<tr>
<td>Agriculture Processing</td>
<td>30</td>
<td>20</td>
<td>67%</td>
</tr>
<tr>
<td>Construction and Engineering</td>
<td>20</td>
<td>15</td>
<td>75%</td>
</tr>
<tr>
<td>Pharmaceutical and chemicals</td>
<td>20</td>
<td>15</td>
<td>75%</td>
</tr>
<tr>
<td>Tyre, Rubber and Plastic</td>
<td>30</td>
<td>25</td>
<td>83%</td>
</tr>
<tr>
<td>Steel and Wood</td>
<td>30</td>
<td>20</td>
<td>67%</td>
</tr>
<tr>
<td>Others</td>
<td>30</td>
<td>25</td>
<td>83%</td>
</tr>
<tr>
<td>Total</td>
<td>200</td>
<td>140</td>
<td>70%</td>
</tr>
</tbody>
</table>
4.2 Company Size
The survey results (Table 6) revealed that the study was balanced as it encompassed companies of all sizes. From the table, 40% of companies surveyed have revenue levels above US$40 million, 25% have revenues that range between US$15 and US$20 million, 20% have revenues that range between US$10 to US$15 million and the balance generate revenues of between US$5 million and US$10 million.

Table 6: Company Size

<table>
<thead>
<tr>
<th>Revenue in millions</th>
<th>less than 5</th>
<th>5&lt;10</th>
<th>10&lt;15</th>
<th>15&lt;20</th>
<th>above 20</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of respondents</td>
<td>0%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
<td>40%</td>
</tr>
</tbody>
</table>

4.3 Financially Distress
The Altman Z-scores were calculated for several companies with relevant information available from the company financial statements. Results from the research shows that companies in the manufacturing sector are financially distressed. About 60% of companies had scored less than 1.88 meaning they are financially distressed and 10% of the companies are in the grey area and the remaining 30% have a score of more than 2.99, meaning that they are financially sound and are not likely to face any financial distress in the near future. The most financially distressed manufacturing company has scored 1.12 and the most financially sound company in the beverages category of manufacturing has recorded a score of 23 and this is really a very high score. Generally, z-score results of the manufacturing companies conclude that the Zimbabwe manufacturing sector is financially distressed.

4.4 Causes of financial distress

Table 7: Causes of Financial Distress

<table>
<thead>
<tr>
<th>Causes of Financial Distress</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aged Equipment</td>
<td>57%</td>
<td>23%</td>
<td>20%</td>
</tr>
<tr>
<td>Shortage of Raw Materials</td>
<td>71%</td>
<td>16%</td>
<td>13%</td>
</tr>
<tr>
<td>Shortage of Capital</td>
<td>86%</td>
<td>14%</td>
<td>0%</td>
</tr>
<tr>
<td>Inappropriate Business Model</td>
<td>14%</td>
<td>58%</td>
<td>28%</td>
</tr>
<tr>
<td>Poor Infrastructure</td>
<td>71%</td>
<td>13%</td>
<td>16%</td>
</tr>
<tr>
<td>Competition from imports</td>
<td>57%</td>
<td>16%</td>
<td>27%</td>
</tr>
</tbody>
</table>

4.4.1 Aged machinery
Of the companies included in the survey, 57% of the respondents revealed that aged machinery was impacting negatively on their operations. Companies could not replace plant and equipment during the hyperinflationary era. As a result, overheads increased owing to continuous breakdowns thereby impacting on the company’s output. Aged machinery results in high repair and maintenance costs as there is need to continuously repair the components that are wearing out. Evidence on the ground also shows that some companies have been investing in equipment which will resultantly lower repairs and maintenance costs in order to remain competitive.

4.4.2 Shortage of Raw Materials
The research also revealed that production costs for companies also escalate owing to shortage of raw materials in the local environment. A total of 71% disclosed that their companies had to resort to imported raw materials which ultimately push up the overall costs of production. Firms operating in the agro-processing...
sector are importing raw materials such as grain and wheat owing to low production from the farms. Companies in the Steel industry revealed that they have to import steel from South Africa as Zisco Steel is not operational. Others in the manufacture of asbestos sector revealed that following the closure of Shabanie and Mashava mines, they now have to import chrysotile fibre from Brazil, India and Russia.

4.4.3 Shortage of Capital
Companies in the manufacturing sector are also in need of capital to enable their operations to return to optimum levels. In total, 86% of respondents noted that they need money for both capital expenditure and working capital. The former requires cheap and long term money whereas local financial institutions are lending out only expensive short term money.

Owing to shortage of funding, corporates end up operating at low capacity. The survey revealed that capacity utilization is averaging 44% with a low of 35% and a high of 80%. Beverages sector is on the high end while plastics and piping divisions are on the low end. The fact to note is that those with high value investors are able to get cheap money (at 5-10% interest) compared to the local market offering of between 20-25%.

4.4.4 Inappropriate business models
Failure by companies to adapt to the current business environment was cited by 14% of the respondents as the other cause for the financial distress in the manufacturing companies. One example cited was sticking to production methods that consume high levels of power in an environment where electricity supplies are erratic and costly. Failing to change these production processes results in higher production cost when matched with other firms from the region.

4.4.5 Poor Infrastructure
The country’s poor infrastructure was cited by 71% of the respondents as one of the reasons behind the poor performance of manufacturing firms. In particular erratic power and water supplies were cited. This results in production stoppages whilst other firms have to resort to alternative sources of power which are expensive. Using private generators increases manufacturing costs, making products uncompetitive when matched with imports.

4.4.6 Competition from imports
Companies in the manufacturing sector are also suffering from low production owing to increased competition from imported products. This was disclosed by 57% of the respondents. Most of these products are coming from South Africa (groceries), Dubai and China (clothing) and Japan and UK (second hand vehicles).

4.5 Repercussions of Financial Distress
The repercussions of financial distress were deduced from analyzing the responses from questionnaires as well as secondary data. These sources include company annual reports, published journals together with investment reports published by investment houses in the country.

4.5.1 Deteriorating Company Performance
Company performance was analyzed from five angles which are: growth in sales, profitability market share, Return on Assets (ROA) and Return of Equity (ROE). Overall it can be noted that company performance improved between 2009 and 2011 (Figure 6). This can be explained by the fact that activity was coming off a low base. However in 2012, liquidity challenges surfaced thereby impacting negatively on performance of companies. Figure 6 summarizes the performance metrics for the companies surveyed.
Figure 6 shows that 14% of the respondents enjoy strong market share after they indicated that their market share was very good in relation to other sector players. Further analysis shows that those companies have a monopoly in producing their products. On Profitability, no respondent cited very good growth which is indicative of the depressed economic environment. Responses on the ROA and ROE mirrored each other. As with the trend on profits, no company indicated a very good return. Good and average growth garnered response rate of 14% apiece, while 43% disclosed that return on both Assets and Equity was weak. The other 29% indicated very weak returns when matched with peers in the industry.

4.5.2 Job losses
The financial distress that companies are going through has resulted in job losses as firms try to reduce their wage bill. Respondents equating to 80% of the sample population indicated that they laid off employees since dollarization. Employees were also retrenched following closure of non-performing units or after becoming redundant owing to the introduction of new technology.

4.5.3 Increased number of company collapses
There are several manufacturing companies that have gone under since the adoption of multiple currencies. Some companies have reported entering into schemes of arrangement with creditors after failing to pay them and some also applied for voluntary judicial management as a way of shielding its assets from creditors and some have were liquidated.

4.5.4 Failing to service bank loans
If a company is financially distressed, it struggles to generate profits and in turn it also fails to service its bank loans. The end result is that banks auctions the company's assets that would have been pledged as security.

5. CONCLUSION
The study concluded that manufacturing firms in Zimbabwe are financially distressed. This view was cemented by the Altman Z-Scores calculated for the companies under study. Results indicated that 60% of the companies
had a score of less than 1.88 whilst 10% was in the grey area (between 1.88 and 2.99). Only 30% of the surveyed firms had a score above 2.99. Financial distress being experienced by companies is as a result of the use of aged machinery, shortage of funding for both working capital and capital expenditure together with dilapidated infrastructure. Competition from imports, shortage of raw materials together with inappropriate business models complete the factors weighing down on company performance.

Financial distress has had negative implications on the performance of companies. Respondents making up 58% of the study indicated that their profit positions were weak relative to that of their competitors. The number of companies going into judicial management or being liquidated has also gone up. In addition, the collapse of companies has resulted in the level of non-performing loans in the banking system going up.

6. RECOMMENDATIONS TO MANUFACTURING FIRMS

6.1 Raise new Capital
The bulk of the profits that are being generated by manufacturing firms are going towards servicing debt. Evidence from the Reserve Bank of Zimbabwe (2014) shows that lending rates for 30 day tenures range between 6% and 35%. The study recommends that companies should raise cheaper equity capital. A company is not compelled to declare dividends and can only do so when the company is in a sound financial position. This is unlike debt whereby the lender expects payments on regular intervals regardless of whether a company is profitable or not. Debt capital in such a scenario ends up choking the company instead of helping the company to grow. In addition, companies can look for external lines of credit for capital projects or external investors. The main advantage of external lines of credit is that they are cheaper and are usually for a longer tenure.

6.2 Business Model Reengineering
The study also brought to light the fact that the other reason why companies in the manufacturing sector are struggling is continued use of outdated business models. There is therefore need to align the company’s business models with the obtaining economic environment. For instance, heavy manufacturing uses more energy and is difficult to sustain in the current economic environment which is characterized by unreliable and costly power supplies. Companies whose operations are effected by erratic water supplies should sink boreholes.

6.3 Invest in new technology
Several companies are making use of aged machinery. Therefore, there is need to source for funding to buy new machines. The new technology automates operations help in bringing down labour costs. New machines improve operational efficiencies through reduced wastages. Production volumes also go up owing to increased capacity and faster production speeds.

6.4 Government to rehabilitate infrastructure
At the moment the country’s infrastructure is dilapidated. This results in the cost of doing business going up. Areas that need to be addressed include rail network, roads, water supplies and power generation. Rail infrastructure in particular needs urgent attention to enable cheaper transportation of bulk raw materials and finished goods. Rehabilitation of infra-structure can be expedited through more Public Private Partnerships (PPP) such as the Build Operate Transfer (BOT) arrangements.

6.5 Realign labour laws to environmental conditions
Respondents that downsized their staff numbers disclosed that this was an expensive exercise on their part as the country’s labour laws favour employees. There is therefore need to amend labour laws in an endeavor
to make them conducive for business operations. Laws should also allow companies to match wages and salaries with the level of production. This implies that there is need to abolish the minimum wages applicable to various sectors and let market forces determine remuneration levels.

6.6 Implement Protectionist Measures
Aggregate demand for products being produced by local companies is falling owing to competition from foreign products. There is need for the government to shield local companies from import competition. The study, therefore recommend that the government puts in place protectionist measures on products that local companies have capacity to produce. Enforcement of these protectionist measures is also of paramount importance. There is need to reduce smuggling of these products at the country's ports of entry, requiring coordinated effort of government agencies concerned.

6.7 Provide Cheap and Long-term Funding
Government should step in with cheaper and long term funding to assist the distressed companies. The study acknowledges efforts that have been made by government to provide cheaper funding for companies through the Distressed and Marginalised Fund together with the Zimbabwe Economic Trade Revival Facility (ZETREF). There is need for the government to fully finance the Small Enterprises Development Corporation (SEDCO) to enable it to offer affordable and suitable funding to the manufacturing sector. Another avenue will be to turn the Infrastructure Development Bank of Zimbabwe (IDBZ) into a commercial bank. This will enable it to pick deposits thereby increasing its capacity to advance loans to the manufacturing sector.

6.8 Revamp local value chains
The research revealed that overall production costs per unit are escalating as the companies are resorting to importing raw materials thereby increasing transportation costs. Government should put measures in place to boost production on the farms.

6.9 Close underperforming units
Another strategy for companies that are continuously recording losses is to close non performing units. Closing non performing units enables a company to channel resources to profitable areas thereby improving capital allocation.

7. REFERENCES
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