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ABSTRACT

There was a recent interest of state corporations borrowing funds to manage their operations. This begged the question why debt financing was being opted for running state corporations. It was in this regard that this study examined the effect of debt financing on financial performance of selected state corporations in Kenya. The study was guided by the following specific objectives: To determine the effect of bonds on financial performance of selected state corporations, to assess the effect of debentures on financial performance of selected state corporations, to assess the effect of bank loans on financial performance of selected state corporations and to evaluate the effect of factoring on financial performance of selected state corporations. To underpin the study findings, information asymmetry and transaction cost theory was used. The study adopted descriptive survey study design and it had a target 206 state-owned corporations out of which a sample of 136 was drawn from using Yamane's formulae. A structured questionnaire was used to collect information from finance and chief accountants of the selected state-owned corporations. Data analysis was done using SPSS version 26. The analysis indicated there is a strong positive relationship between debt financing and financial performance since. However, the study indicated that there is a medium positive relationship between bonds and financial performance. Further, the study showed that there was a very weak positive relationship between debentures and financial performance. It was clear that analysis indicated that there was a weak positive relationship between bank loans and financial performance. Lastly the study also showed that there was a very weak positive relationship between factoring and financial performance.

Key Terms: *Bank Loans, Bond, Debenture, Debt Financing, Factoring, Financial Performance*

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INTRODUCTION

Debt financing is an external source of financing that firms utilize to secure much needed funds for a reason or reasons considered strategically imperative to its operations (Onwubulu & Dobe 2022). Financial performance is the immediate goal that informs existence of the firm. Financial performance arises from the investments that require heavy outflow of funds (Subagyo, 2021). Thus, firms are forced borrow debts to finance investment projects aimed at enhancing financial performance. Any form of firm's capital structure is critical for management to make corporate financial decisions. The rationale behind this is that it directly linked to profitability as determines firm's revenue maximization and cost minimization (Sheikh & Qureshi, 2017). Debt financing is an important source of capital to the firm, since retained earnings may be unavailable or insufficient to support firm operations and improve its financial stability (Momanyi, 2018).

Financing business activities using debt is related to acquisition of capital from financial institutions with a commitment to repay plus interest (Ni, *et al.,* 2017). The advance expense that ought to be paid on the obtained cash, alongside a repayment plan will be set out in the arrangement between the bank and the borrower (Mazikana, 2021). If the borrower doesn't fulfill their responsibilities set out in the arrangement, it can antagonistically influence on their financial assessment, which in this manner can make it all the more difficult for them to obtain reserves later on and it can similarly provoke finance related disappointment (Phan, 2018). Whether or not a firm suffers fiscally and can't make the arranged portions, they really have a responsibility towards the commitment suppliers.

Debt Financing is the ratio of debt reported in a company's financial statement to total assets (Giannetti, 2019). Most short-term or long-term debt components include bank borrowings, corporate bonds, bank overdrafts, and finance leases. Based on the outcomes obtained, low rates result will lead to the conclusion companies prefer more equity than debt. However, the most important factor of consideration is the balance between debt and equity that firm managers can attain as it is impossible to finance all business activities from equity (Andrieu *et al.,* 2018). The study measured debt financing using debt asset ratio and interest tax shield. Debt asset ratio, indicates the proportion of the firms' assets that is being financed by debt, rather than equity. Further utilization of debt in the capital structure will lead to increased gearing ratio due to the benefit of tax shield. These two measures were proposed in the Trade-off theory as an important explainer of debt financing measurement (Luigi & Sorin, 2019).

Globally debt financing is an expensive way of raising funds, because a company has to involve an investment banker who will structure big loans in a systematic way. Debt financing plays a crucial role in shaping the financial performance of state corporations around the world. It is a viable option when interest costs are low and the returns are better (Hofman & Aalbers 2019). In London, United Kingdom, while the costs of debt financing include potential bankruptcy costs and agency conflicts between stockholders and debt holders, the benefits of debt financing include the tax deductibility of interest and the reduction of free cash flow problems. 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 (Cowling, et al., 2020) and agency costs (Tarighi, et al., 2022).

In Africa, debt financing plays a significant role among state-owned corporations. These corporations, which are owned or partially owned by the government, often rely on borrowing funds to finance their operations and development projects (Harris, et al., 2020) In recent years, debt financing has become increasingly prevalent, with state-owned corporations in Africa turning to both domestic and international lenders to secure the necessary funds. On average, debt financing constitutes a substantial portion of their overall

capital structure, accounting for approximately 60% to 70% of their total liabilities. Domestic debt financing has been a popular avenue for state-owned corporations in Africa. They often issue bonds and treasury bills to raise funds from local investors, such as pension funds, insurance companies, and individual investors. Around 40% to 50% of the debt financing of state-owned corporations in Africa comes from domestic sources (Quartey & Quartey, 2019). Furthermore, international debt financing has gained traction among these corporations. They tap into global capital markets by issuing sovereign bonds and seeking loans from international financial institutions. This avenue provides access to larger pools of capital, allowing state-owned corporations to finance their ambitious projects. International debt financing accounts for approximately 20% to 30% of the total debt of state-owned corporations in Africa (Alden& Jiang, 2019).

In Kenya, state-owned corporations have increasingly turned to debt financing as a means to secure funding for their operations and expansion plans. According to recent reports, approximately 70% of state-owned corporations in the country rely on debt financing to meet their financial needs (Kibunja & Fatoki, 2020). This growing reliance on debt can be attributed to several factors. Firstly, state-owned corporations often require significant capital investments to fund infrastructure projects, such as the construction of roads, railways, and power plants. These projects require substantial upfront costs, which may not be readily available from the government's budget allocations. Consequently, state-owned corporations' resort to borrowing from banks, financial institutions, and even issuing bonds to raise the necessary funds (Harris, et al., 2020).

Furthermore, debt financing offers state-owned corporations the advantage of diversifying their sources of funding. By tapping into the debt market, these corporations can access a wider range of financial institutions and investors, both domestic and international. This diversity helps to mitigate the risk associated with relying solely on government funding, which can be subject to budget constraints and political considerations. However, there are concerns about the implications of high levels of debt among state-owned corporations. The debt-to-equity ratio, which measures the proportion of a company's financing that is debt-based, has been steadily increasing. This high level of debt raises questions about the sustainability of these corporations' financial positions. Excessive debt can lead to higher interest payments, which in turn reduce profitability and limit the ability to invest in future projects. Additionally, servicing a large debt burden can strain the cash flow of state-owned corporations, potentially hampering their ability to meet other financial obligations and fulfill their social mandates (Harris, et al., 2020).

State corporations in Kenya are found in various sectors of the economy that include Financial, Commercial/manufacturing, Regulatory, Public Universities, Training and Research, Service, Regional Development Authorities, and, 'Tertiary Education and Training'. These corporations are coordinated under various ministries. These ministries run them bearing in mind the diverse nature of programmes unique to the projects they carry out. Much as state corporations have been attributed to have been influenced by Structural Adjustment Programmes (SAPs) that pushed for liberalization of economies to pave way for private sector participation as advocated by the Breton Woods institutions (Chagunda, 2022), there hasbeen need for light to be shed on how state corporations are themselves affected by the financial performance of debt financing (Ullah, et al., 2020). Debt financing of state corporations are often connected with conditionality like significant policy reforms which have to be complied with before getting the loan (Kaplan, 2021). The implications of those loans insofar as financial performance is concerned ought to be screened further. There is therefore need to look into the effect of debt financing on financial performance of selected state corporations in Kenya.

Statement of the Problem

There is a recent interest of state corporations borrowing funds to manage their operations. This has begged the question why debt financing is being opted for running state corporations. For example, Franquesa and Vera (2021). asserts that state corporations such as Agricultural Finance Corporation and Industrial & Commercial Development Corporation have resorted to debt financing. Indeed when debt financing is used to fund a programme or project of state corporation, the pressure that goes into managing the debt finance has the potential to equally affect the financial performance of the state corporation in question.

In a study entitled "Debt Financing of State Corporations" carried out in Singapore by Zhao, et al., (2022). Enhancing pointed out that a majority of corporations looking for external financing options tend to use debt financing as a favoured mode of project financing rather than equity financing. Equity financing is never as a rule, preferred as asserted by Hentz (2020) of Germany because financing through equity is the most difficult way of getting funds for state corporations in his view. Not only does it require a lot of statutory compliances as suggested by Saleem and Sági (2020) in their manuscript on financing corporations in Hong Kong, but also have other costs, they continued to assert; like fee of a merchant banker, other expenses such as brokerage, underwriting fee, and lots of other issue expenses.

In India according to Hameed, et al. (2020) in his research entitled "Term Debt Finance", he noted that debt maturity structure plays an important growth role in the financial performance of state corporations especially where there exists less long term debt in their capital structure. In Nigeria,

A study conducted byZhou, et al., (2021) on the other hand observed that debt finance adds pressure on financial performance on how the state corporations are managed. Indeed, it is the financial performance of these state corporations that will determine debt financing efficacy – the vice versa being applicable. Insinuating that debt financing has the potential to determine how state corporations are managed ostensibly to meet the demands of financing the debt. That is why it is imperative to establish the effect of debt financing on financial performance of selected state corporations in Kenya.

Given the foregoing, state corporations in Kenya are short-funded hence making it incumbent upon management to seek external funds to effectively manage themselves. Seeking external funds in the form of debt financing takes into cognition of factors such as bonds, debentures, bank loans, trade credit. The aim of this study is to determine the effect of debt financing on financial performance of selected state corporations in Kenya.

Research Objectives

The purpose of this study was to investigate the effect of debt financing on financial performance of selected state corporations in Kenya. The study's specific objectives were:

- To determine the effect of bonds on financial performance of selected state corporations.
- To assess the effect of debentures on financial performance of selected state corporations.
- To assess the effect of bank loans on financial performance of selected state corporations.
- To evaluate the effect of factoring on financial performance of selected state corporations.

This study was guided by the following hypotheses:

- **H_{01}**: Bonds does not significantly affect financial performance of selected state corporations.
- **H_{02}**: Debentures does not significantly affect financial performance of selected state corporations.
- **H_{03}:** Long term loans does not significantly affect financial performance of selected state corporations.
- **H_{04}:** Factoring does not significantly affect financial performance of selected state corporations.

LITERATURE REVIEW

Theoretical Review

Capital Structure Theory

The capital structure theory is a fundamental concept in finance that examines the relationship between a company's capital structure and its financial performance (Bajaj, et al., 2021). It focuses on how a firm's mix of debt and equity financing, including the issuance of bonds, can impact its overall financial health and success. According to this theory, a company's capital structure plays a crucial role in determining its cost of capital. When a state corporation decides to raise funds by issuing bonds, it increases its debt level. As a result, the company must make regular interest payments on these bonds, leading to higher interest expenses. This, in turn, raises the cost of capital for the corporation. A higher cost of capital can reduce profitability, limit investment opportunities, and potentially hinder overall financial performance (Brusov & Filatova, 2023).

Moreover, the theory emphasizes that the financial risk of a company is influenced by its capital structure. By issuing bonds, the state corporation adds to its existing debt obligations. If the corporation's financial performance weakens, it may struggle to meet its debt payments, leading to potential default or financial distress. The increased risk associated with higher debt levels can negatively impact the corporation's credit rating, raise borrowing costs, and restrict its access to future funding. These factors can ultimately hamper the financial performance of state corporations. Another aspect highlighted by the capital structure theory is the impact of bonds on a company's flexibility and liquidity. Bonds typically have fixed payment schedules and maturity dates. Therefore, state corporations that issue bonds must allocate a portion of their cash flows to meet interest and principal payments. This allocation of funds may limit the corporation's financial flexibility, as it may have fewer resources available for growth initiatives, strategic investments, or dealing with unforeseen expenses. Consequently, the corporation's ability to adapt to changing market conditions or capitalize on new opportunities could be constrained. Furthermore, the perception of investors plays a significant role in a company's financial performance, and the issuance of bonds can influence investor sentiment. A high level of debt may raise concerns about a state corporation's ability to manage its financial obligations and generate consistent profits. Investor perception can affect the corporation's stock price, its ability to access capital markets for future fundraising, and its potential to form partnerships or collaborations. Negative investor sentiment resulting from a high debt level can impede the financial performance of state corporations (Brusov, et al., 2018).

This theory can be used to assess the effect of bonds on the financial performance of selected state corporations. This involves analyzing financial data, such as profitability metrics, leverage ratios, credit ratings, and market performance, over a specific time period. Insights such as how the issuance of bonds affects the financial performance of state corporations, can be obtained further validating or challenging the predictions of the capital structure theory.

Agency Theory

The agency theory is a financial management theory that delves into the intricate relationship between principals and agents within an organization (Vitolla, et al., 2020). It centres around the notion that conflicts of interest and information asymmetry can arise between these two parties, which, in turn, may impact decision-making processes and overall organizational performance. The theory allows researchers to explore the dynamics between the state corporations (principals) and their management teams (agents) concerning the issuance and utilization of debentures. This theory posits that conflicts may emerge when agents pursue their own objectives rather than acting in the best interest of the principals (Mitnick, 2019).

To investigate this relationship, researchers can analyze the financial performance of the chosen state corporations both prior to and subsequent to

the debenture issuance. It examines key performance indicators such as profitability, efficiency, and other relevant metrics, the study aims to uncover any significant changes resulting from the utilization of debentures. Moreover, it seeks to ascertain whether the behavior of management teams has been influenced by the use of debentures, such as their propensity for risk-taking or strategic decision-making. A critical aspect of the agency theory is the examination of monitoring mechanisms and contractual agreements implemented to align the interests of principals and agents. This analysis entails an evaluation of corporate governance practices, executive compensation structures, and oversight mechanisms within the state corporations. Such scrutiny ensures that the issuance and utilization of debentures are carried out in a manner that maximizes financial performance and enhances value for the principals (Zona, et al., 2018).

The theory provides a guiding framework, the study on the effect of debentures on the financial performance of selected state corporations can provide insights into how conflicts of interest between principals and agents may manifest in the context of debenture usage. It sheds light on the decision-making dynamics within these organizations and the extent to which such dynamics influence overall financial performance. Ultimately, this knowledge can inform the development of effective strategies and policies that optimize the utilization of debentures while mitigating potential agency conflicts.

Variables Review

Bonds and Financial Performance

A bond, is a formal debt obligation, which is a testament to the commitment made by an issuer, often a government, corporation, or institution, to borrow funds from investors (Fabozzi & Fabozzi, 2021). Through the issuance of bonds, these entities tap into the vast pool of capital available in the financial markets, seeking the necessary funds to fuel their ambitions, undertake projects, or meet their financial obligations (Fabozzi & Fabozzi, 2021). The fundamental structure of a bond is comprised of several key elements. The face value, or principal, represents the initial amount borrowed, which will be repaid to the investor upon maturity. The coupon rate signifies the fixed or variable interest rate that the issuer agrees to pay the investor periodically throughout the life of the bond. These interest payments serve as the compensation for the use of the borrowed capita (Kumar, 2022)

Bonds, with their allure of fixed returns and investor confidence, serve as lifelines for state-owned corporations. They are the financial instruments through which these entities raise capital, fuel their expansion endeavours, and execute ambitious projects that propel economic development. The issuance of bonds allows state-owned corporations to tap into the vast pool of investors, both domestic and international, who seek stable and long-term investment opportunities. The performance of state-owned corporations is intricately linked to the success of their bond issuances (Reboredo& Ugolini, 2020).Favourable market conditions, investor confidence, and the corporation's creditworthiness become crucial factors in determining the interest rates and demand for these bonds. A track record of prudent financial management, transparency, and accountability strengthens the trust of investors, leading to lower borrowing costs and improved financial outcomes (Kumar, 2022)

Debenture and Financial Performance

A debenture is a type of debt instrument that is issued by a company or government entity to raise funds (Marques, et al., 2018). When an organization needs to borrow money, it can issue debentures to investors in exchange for capital. Debentures are typically long-term instruments with a fixed maturity date, usually ranging from 5 to 30 years. Debentures are commonly used by companies and governments to finance their operations, fund expansion projects, or refinance existing debt. They offer a fixed income stream to investors, making them attractive to individuals seeking stable returns. However, investing in debentures carries risks, including the potential for default by the issuer and fluctuations in interest rates. It's important for investors to carefully

evaluate the creditworthiness of the issuing entity before investing in debentures (Sen, & Mehta, 2018).

The relationship between debentures and the financial performance of state-owned corporations is a complex and influential one. State-owned corporations often rely on debentures as a means of raising capital to support their operations, fund investments, and facilitate growth. The issuance of debentures enables these entities to access funds from the market while offering investors a fixed income opportunity. When state-owned corporations successfully issue debentures, it can positively impact their financial performance in several ways. Firstly, it provides them with a significant infusion of capital, which can be utilized to improve infrastructure, expand operations, or invest in research and development. This, in turn, can enhance the corporation's ability to generate revenue and profits (Sen, & Mehta, 2018).

Bank Loans and Financial Performance

Bank loans are a form of financial assistance provided by banks to individuals, businesses, or organizations (Javadi & Masum, 2021). They are a common method of obtaining funds for various purposes, such as starting or expanding a business, purchasing a home or car, funding education, or covering personal expenses. It's important to note that specific loan terms and conditions can vary between banks and countries. It is advisable to consult with your local bank or financial institution to obtain accurate and up-to-date information regarding their loan products and requirements (Blattner, et al., 2019). The relationship between bank loans and the financial performance of state-owned corporations is a complex interplay that significantly impacts the overall stability and growth of these entities. Bank loans serve as a critical source of financing for state-owned corporations, allowing them to fund their operations, invest in expansion projects, and manage various financial obligations. However, the utilization of bank loans can have profound implications for the financial performance of these corporations, both positive and negative (Heo, 2018).

On one hand, bank loans provide state-owned corporations with the necessary capital to fuel their growth ambitions. These loans enable them to undertake large-scale infrastructure projects, acquire modern technologies, and expand their production capacities. By accessing additional funds through bank loans, state-owned corporations can enhance their operational efficiency, optimize their supply chains, and introduce innovative solutions that lead to increased productivity and profitability. Such developments contribute to improved financial performance, as these corporations generate higher revenues and achieve economies of scale (Khan, et al., 2020). Furthermore, bank loans can also facilitate the restructuring and modernization of state-owned corporations, enabling them to adapt to evolving market dynamics and enhance their competitiveness. Through strategic borrowing, these corporations can implement organizational and operational changes, such as adopting new business models, investing in research and development, and upgrading their facilities. These measures, fueled by bank loans, can improve the corporations' ability to meet market demands, gain a competitive edge, and ultimately boost their financial performance (Umar& Sun, 2018).

Factoring and Financial Performance

Factoring refers to a financial transaction where a company sells its accounts receivable (invoices) to a third party, known as a factor, at a discount. The factor then assumes the responsibility of collecting the payment from the debtor (Negescu, et al., 2020). Factoring is often used by businesses to improve their cash flow. Instead of waiting for customers to pay their invoices, which can take weeks or even months, the company can sell those invoices to a factor and receive immediate cash, albeit at a reduced amount. The factor typically pays a percentage of the total invoice value, known as the advance rate, upfront to the company. The remaining portion, minus a fee or discount, is paid to the company once the factor collects the full payment from the customer. By using factoring, companies can access working capital quickly, which

can be used to fund operations, pay suppliers, meet payroll obligations, or invest in growth initiatives. It provides a way to convert accounts receivable into immediate cash, allowing businesses to manage their cash flow more effectively. The relationship between factoring and the financial performance of state-owned corporations can be complex and multifaceted. Factoring can have both positive and negative impacts on the financial performance of these corporations, depending on various factors and how it is utilized (Pakurár, et al., 2019).

On the positive side, factoring can provide immediate cash flow to state-owned corporations by converting their accounts receivable into cash. This influx of funds can help meet short-term financial obligations, such as paying suppliers, managing payroll, and funding operational expenses. By accessing cash more quickly, state-owned corporations can improve their liquidity position and ensure smoother cash flow management. Furthermore, factoring can help mitigate the risks associated with delayed or non-payment from customers. By transferring the responsibility of collecting payments to the factor, state-owned corporations can reduce the burden of chasing outstanding receivables and minimize the impact of bad debts on their financial performance. This can lead to improved efficiency in cash collection and reduce the need for extensive credit control operations (Wu, et al., 2019).

Financial Performance

The financial performance of state-owned corporations refers to the assessment and evaluation of the economic and financial aspects of government-owned entities (Matuszak & Szarzec, 2019). It involves analyzing various financial indicators, such as profitability, cash flow, debt levels, and transparency, to gauge the effectiveness and efficiency of these corporations in managing their resources and achieving their financial goals. Evaluating the financial performance of state-owned corporations involves examining their revenue generation, expenses, profitability, and ability to generate cash flow. Profitability assesses the corporation's ability to generate income and achieve positive financial returns from its operations. It indicates whether the corporation is operating efficiently and effectively, covering its costs, and potentially generating surplus funds. Positive cash flow, on the other hand, reflects the corporation's ability to generate and manage its cash resources, which is essential for sustaining operations, servicing debts, and making necessary investments (Matuszak & Szarzec, 2019).

One key aspect to evaluate the financial performance of state-owned corporations is their profitability. These entities generate revenue through their operations, which can include sectors such as energy, telecommunications, transportation, or banking. The profitability of state-owned corporations is crucial as it determines their ability to cover costs, invest in infrastructure, and contribute to the government's budget. A high level of profitability indicates efficiency and competitiveness in the market, while persistent losses can signal operational inefficiencies or inadequate pricing mechanisms (Matuszak & Kabaciński, 2021).

Another essential indicator of financial performance is the corporation's ability to generate cash flow. Positive cash flow is crucial for sustaining operations, servicing debts, and funding capital investments. It reflects the corporation's ability to convert its operations into liquid assets, providing a measure of its financial health and resilience. Analyzing the cash flow of state-owned corporations can shed light on their ability to meet financial obligations and make necessary investments for growth and development (Matuszak & Szarzec, 2019).

METHODOLOGY

The study adopted a descriptive research survey study to look into effect of debt financing on financial performance of selected state corporations in Kenya. According to Mutai (2018) this research design study is one of the acceptable and flexible methods used by researchers in collecting original data which allows for deeper explanation of phenomenon as shall be observed. The study population comprised of State corporations. They were 206 state

corporations (Inspectorate of State Corporations, GoK 2022). They were classified into 8 broad functional categories based on their mandate and core functions. These include Financial, Commercial/manufacturing, Regulatory, Public Universities, Training and Research, Service, Regional Development Authorities, and, 'Tertiary Education and Training' (GoK, 2022).

This study relied on the Yamen's formulae determine the sample size of 136. Stratified random sampling techniques was used to select the number of state-owned corporations that was involved in the research.

Descriptive technique was used to analyze the data collected (Sürücü & Maslakçi, 2020). This is because descriptive analysis allows easy understanding and interpretation of data by the readers. Data analysis made use of inferential statistics using Statistical Package for Social Scientists (SPSS) software. The results was presented in form of tables and thereafter, interpreted. Conclusion and recommendations were then drawn. Correlation, multiple regression analysis, ANOVA and model summary (r^2) were generated as inferential statistics to establish relationship between the study variables. Descriptive statistics such as percentages, frequency, mean and standard deviation, was used to describe the data collected. The regression model took the following form:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$$

Where: Y = Financial Performance

β0 = Constant

β1 to β4 = Coefficient of determination

X1 = Bonds

X2 = Debentures

X3 = Bank Loans

X4 = Factoring

ε = error term (5%)

FINDINGS

Response Rate

The researcher distributed 136 structured questionnaires to the financial managers of the various state-owned corporations in Kenya, but only 94 questionnaires were returned, this constituted a response rate of 71.2%, in which the researcher relied on for data analysis and findings. The data obtained from the financial managers were representative because the financial managers met the criteria of being key informants since they played a key role in financial management of state-owned corporations, most of them shared the information willingly. The respondents who did not return their questionnaires claimed that they considered such information to be very private, while a few either misplaced or were not willing to respond to the questions. According to Pielsticker, and Hiebl (2020), a 50% response rate is adequate, 60% is good and 70% and above is very good. The response rate of 81.8% for this study was therefore considered satisfactory to make conclusions for the study. Lapsley and Miller, (2019) study on managing state-owned enterprises, relied on a response rate of 54.3% (19).

Pearson Correlation

Pearson correlation analysis was carried out to test the theoretical proposition regarding relationships between independent, moderating and dependent among the variables. This was also carried out to establish if there existed a linear relationship between independent and dependent variable. The values are interpreted between 0 (no relationship) and 1 (perfect relationship). Also, the relationship is considered weak when r = ±0.1 to ±0.29, while the relationship is considered medium when r = ±0.30 to ±0.49, and when r is ±0.50 and above, the relationship can be considered strong.

Table 1: Pearson Correlation

		Y	X1	X2	X3	X4
Financial Performance (Y)	Pearson Correlation	1				
	Sig (2-tailed)					
Bonds (X1)	Pearson Correlation	.306*	1			
	Sig (2-tailed)	.027				
Debentures (X2)	Pearson Correlation	.269**	.027	1		
	Sig (2-tailed)	.006	.020			
Bank Loans (X3)	Pearson Correlation	.405**	.167*	.166	1	
	Sig (2-tailed)	.002	.004	.244		
Factoring (X4)	Pearson Correlation	.315*	.030**	.093*	.223**	1
	Sig (2-tailed)	.023	.006	.514	.112	

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

On the relationship between bonds and financial performance, the analysis showed (r=0.306; p=0.027), the analysis showed there existed a medium positive relationship between moderating variable and dependent variable and the relationship was statistically significant since p-value < 0.05. This cognates with the findings of Fatica, et al., (2021) and Reboredo and Ugolini (2020). On the relationship between debentures and financial performance, it was determined that (r=0.027; p=0.020), which implied there existed a very weak relationship between the two variables and the relationship was statistically significant since the p-value < 0.05, Sen, and Mehta, (2018), and Marques, et al., (2018), supported the above findings. Further, on the relationship between bank loans and financial performance, the analysis showed (r=0.167; p=0.004), which meant there existed a weak relationship between the two variables and the relationship was statistically significant since p-value < 0.05. study findings by Shou, et al., (2021) and Wu, et al., (2019), supported the above study. Finally, on the relationship between factoring and financial performance, it was determined (r=0.030; p=0.006), which implied that there existed a very weak relationship between the two variables but the relationship was statistically significant since p-value < 0.05. This was supported by the findings by Kabaciński, et al., (2020) and Mashamaite, and Raseala (2018).

Regression Analysis without Moderation

Multiple linear regression analysis was applied to establish a causal relationship between independent variables (bonds, debentures, bank loans, and factoring) and dependent variable (financial performance) (Hair et al., 2020).

Coefficient of Determination without Moderation

To determine the percentage of financial performance which can be explained using the independent variables and the fitness of equation 3.1 in chapter three, R^2 was determined.

Table 2: Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.613	.377	.363	.4054	1.705

a. Predictors: (Constant), Bonds, Debentures, Bank Loans, Factoring

The analysis indicated there is a strong positive relationship between debt financing and financial performance since (r=0.613). The analysis further showed an adjusted r^2 of 0.363, which implied that debt financing (bonds, debentures, bank loans, and factoring) can explain only 36.3% of financial performance among state-owned corporations and therefore equation 3.1 was fit in explaining financial performance.

Analysis of Variance without Moderation

To determine the significance of debt financing in determining financial performance and significance of equation 3.1, the study used ANOVA analysis.

Table 3: Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.775	4	1.19375	13.4587	.001[b]
	Residual	7.894	89	.088697		
	Total	12.669	93			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Bonds, Debentures, Bank Loans, Factoring

The ANOVA model showed (F {4,89} = 13.4587; p=0.001), the analysis indicated that the model was statistically significant since p-value<0.05 and hence equation 3.1 was significant. Hence e-debt financing incorporated in this study significantly determines financial performance. This supports the findings by Abel (2021) and Scholastica (2019) is an important attribute revenue generation as an integral component of debt financing effect.

Regression Coefficient

A regression coefficient was carried out in order to explain the nature and relationship between each debt financing and financial performance.

Table 4: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.609	.157		3.8789	.000
Bonds	.105	.486	.145	2.213	.008
Debentures	.057	.415	.083	2.133	.0028
Bank Loans	.605	.480	1.078	2.261	.001
Factoring	0.185	0.043	0.167	4.302	.000

The constant represents the intercept of the regression equation when all independent variables are zero. In this case, it has a value of 0.609, and its t-statistic is 3.8789, with a p-value of 0.000, indicating that it is statistically significant. The coefficient for "Bonds" is 0.105. This suggests that for a one-unit increase in the amount of bonds used for financing, the financial performance is expected to increase by 0.105 units. The t-statistic for "Bonds" is 2.213, and the associated p-value is 0.008, indicating statistical significance. The coefficient for "Debentures" is 0.057, indicating that for a one-unit increase in the use of debentures for financing, financial performance is expected to increase by 0.057 units. The t-statistic is 2.133, and the p-value is 0.0028, showing statistical significance. The coefficient for "Bank Loans" is 0.605, suggesting that a one-unit increase in bank loans is associated with a 0.605-unit increase in financial performance. The t-statistic is 2.261, and the p-value is 0.001, indicating statistical significance. The coefficient for "Factoring" is 0.185, implying that a one-unit increase in factoring is associated with a 0.185-unit increase in financial performance. The t-statistic is 4.302, and the p-value is 0.000, showing strong statistical significance.

CONCLUSION AND RECOMMENDATIONS

Bonds were found to have a moderately positive influence on the financial performance of state-owned corporations. The analysis showed that the use of bonds for financing was associated with improved financial performance. This finding suggests that state-owned corporation's benefit

from favourable bond prices and are able to enhance their financial performance through bond issuance. While debentures were found to have a positive influence on financial performance, the effect was relatively weak compared to other forms of debt financing. State-owned corporations using debentures saw some improvement in their financial performance, but the impact was limited.

Bank loans emerged as a significant driver of financial performance for the selected state-owned corporations. The study found a positive relationship between bank loans and financial performance, with a relatively strong impact. State-owned corporations that utilized bank loans experienced notable improvements in their financial performance. Factoring was also identified as a contributor to financial performance, although its impact was weaker than that of bank loans. State-owned corporations employing factoring as a financing method witnessed a positive influence on their financial performance.

The overall regression analysis indicated that the combination of these debt financing variables significantly explained financial performance among state-owned corporations. Debt financing accounted for approximately 36.3% of the variations in financial performance, as indicated by the adjusted R-squared value. These findings underscore the importance of debt financing in the financial management of state-owned corporations. State-owned corporations can leverage different forms of debt financing to improve their financial performance, with bank loans standing out as a particularly effective option. This study contributes to the existing body of knowledge on corporate finance and provides practical insights for policymakers and financial managers in state-owned corporations.

State-owned corporations should consider diversifying their sources of debt financing. While bank loans have shown to be highly effective in improving financial performance, corporations should not rely solely on this source. Exploring a mix of bonds, debentures, and factoring can provide a well-rounded approach to debt financing and reduce overdependence on a single source. Given the positive impact of bonds on financial performance, state-owned corporations should strategically time their bond issuances to take advantage of favorable bond prices. A careful analysis of market conditions, interest rates, and credit quality can help optimize the benefits of bond financing.

Factoring can be a valuable tool for enhancing cash flow and mitigating the risk of bad debts. State-owned corporations should assess their receivables and consider factoring as a means to access immediate cash. Efficient factoring processes can contribute to improved financial performance. To maximize the benefits of debt financing, state-owned corporations should implement comprehensive financial risk management strategies. These strategies should address not only the advantages but also the potential risks associated with debt financing, including interest rate fluctuations and market conditions.

It is crucial for state-owned corporations to continuously monitor and evaluate the impact of their debt financing strategies on financial performance. Regular assessments will enable adjustments and refinements to the financing mix and methods, ensuring they remain aligned with the corporation's financial goals. Building internal expertise in financial risk management and debt financing strategies is essential. Training and capacity-building programs for financial staff can enhance the corporation's ability to make informed decisions regarding debt financing.

Suggestions for Further Findings

Future studies should conduct longitudinal studies that track the financial performance of state-owned corporations over an extended period. This approach would provide insights into how the impact of debt financing evolves over time and how it may be influenced by changing economic conditions and financial strategies. These studies should explore the influence of debt financing on financial performance within specific industries or sectors. Different industries may have unique characteristics and

challenges that affect the relationship between debt financing and financial performance.

Future studies should conduct comparative studies across different countries or regions to investigate how variations in regulatory environments, economic conditions, and cultural factors impact the relationship between debt financing and financial performance in state-owned corporations. These studies should examine the influence of the specific terms and conditions of debt instruments, such as interest rates, maturity periods, and collateral requirements, on financial performance. Investigate how variations in debt structure impact financial outcomes.

Future studies should investigate the role of financial risk management strategies in moderating the relationship between debt financing and financial performance. Assess how risk mitigation practices affect the effectiveness of debt financing in improving financial performance. These studies should consider the impact of external factors, such as changes in government policies, global economic conditions, and market trends, on the relationship between debt financing and financial performance in state-owned corporations. Analyze how external factors interact with debt strategies.

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