Uttara University

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Project Report

On

"Impact of Debt Financing on Earnings/Productivity of the Business concern"

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Date of Submission: 30.08.2020

Letter of Transmittal

Date: 30.08.2020

To

Dr. Md. Golam Morshed

Assistant Professor

School Of Business

Uttara University

Subject: Submission of the project report on "Impact of Debt Financing on Earnings/Productivity of the Business concern"

Sir,

With due respect, I would like to say that it's a great pleasure to submit a project report on "Impact of Debt Financing on Earnings/Productivity of the Business concern" as a part of fulfillment of BBA program to you. I learned different knowledge by doing this project. I have tried my best to collect all the information identified with the topic of this paper over the last few months.

It was an amazing test for me to work on "Impact of Debt Financing on Earnings/Productivity of the Business concern" though faced various concept and I was really pleased to participate this topic.

Sincerely yours,

Umma Halima Khandakar

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<u>Student's Declaration</u>

30 August 2020

I declare that the project report on "**Impact of Debt Financing on Earnings/Productivity of the Business concern**" Embodies the results of my own research works, pursued under the arrangement. I prepared this project under the supervision and guidance of **Dr. Md. Golam Morshed, Assistant Professor**, **Department of Business Administration, Uttara University**.

I further affirm that the work Projected in this project is original and no part or whole of the project has been submitted to, any other university or institution for any degree or award for any other purpose.

…………………….

Umma Halima Khandakar

ID: 2161011092

39th (B) Batch

BBA Program

Major in Accounting

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Uttara University

<u>Supervisors Declaration</u>

I am pleased to certify that the project report on "**Impact of Debt Financing on Earnings/Productivity of the Business concern**" has been successfully completed by **Umma Halima Khandakar** her bearing ID: 2161011092, Department of Business Administration has been approved for presentation and viva voce. Under my Supervision **Umma Halima Khandakar**.

I am pleased to hereby certify that data and findings presented are the authentic work of **Umma Halima Khandakar**. I strongly recommend the Project presented for further academic commendation and viva voce.

It has indeed been a great pleasure working with her. I wish her all success in life.

Internship supervisor

………………………………..

Dr. Md. Golam Morshed

Assistant Professor

Department of Business Administration

School of Business

Uttara University

Acknowledgement

I need to express gratitude to the all-powerful Allah, who gave me the possibility to complete this report effectively. It was not possible to complete me without bless of Allah.
Any work needs guidelines, inspirations, mental and logical support from others. To prepare this report, all those, individuals, friends gave their support to me. It would not have been possible to prepare this report without their cooperation. I am grateful to these experienced people who always give me support and supervision for completing this report. I would like to express my sincere gratitude to my instructor Dr. Md. Golam Morshed, as the supervisor of my project for his skillful guidance, patience and support me throughout in this project. And without his guidance it was not possible to complete this report in regards of me. Finally I am grateful to all the other people who were involved and helped me directly or indirectly during this project and preparing this report.

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Justification of the study

This study impact of debt financing on productivity of the business concern. The economic decline resulted in a harsh environment for firms to operate and many had to downsize, while some closed down entirely and moved operations abroad. The level of interest rates were high and unstable to enable firms carry out accurate capital budgeting. Investments declined resulting in deterioration of key infrastructures in key industries like the agricultural and others sector.
The study motivates to answer the question: What is the effect of debt financing on profitability of the businesses in Bangladesh. Many businesses use debt to finance their operations and investments, and this is supported by the government through the Central Bank by providing loans to different businesses sector. But debt finance can be short-term or long-term in nature. The purposes of finance are investing in capital projects and meeting working capital requirements. The both working capital and money for capital expenditure have to be found before business starts to generate any income. The working capital is needed for the day to day running of a business. Finance may come up from the owners known as equity or borrowed from the lenders known as debt. Hence, financial policy is the key element for the growth and progress of the business. Therefore, financial decision can effect on the business value.
The study is hoped to be significant to the different types of business, businessman, economy, financial structure and other. Most banks only have deposits which are short-term in nature and this has compromised their intermediary role as they are not able to give long term loans to enable firms to invest in machinery and equipment which are long-term projects. The inability of banks to issue long-term loans and liquidity challenges of banks is affecting businesses access to financing from banks. Borrowing of loans from other banks, companies or financial institutions so as to support the operations of a business is referred to as debt financing. An interest expense is paid before the maturity of the debt, with loan principal being repaid at a future time. Debt financing is a financing option that is structured to improve the owner's rate of return on investment by producing a rate of return that is higher than the overall cost of the borrowed funds.
The study will be importance to the business owner's in that it will provide insights into how debt financing affects the productivity of the business. This will ultimately help them make appropriate decision on whether or not to use debt financing, what type of debt to use, and the most optimal capital mix between equity and debt. The study could be useful to the business as it is seeking for ways to diversify the economy through local sales and export of all products.
Also the study can serve as a reference for future researchers who might want to carry out a study on the factors affecting profitability of businesses in Bangladesh.

Objectives

The main objective of this study was to examine the impact of debt financing on earnings/productivity of the Business concern. Other specific objectives that were expected to be achieved form this study are:

1. Identify the type of debt financing from bank & financial institutions.
2. Establish the impact of debt financing on the levels of investment.
3. Assess the effects of debt financing on the productivity.
4. Establish if adequately funded by financial institutions.
5. Assess the impact of interest rates on the operations of business.

Methodology

This study had been conducted by analyzing 10 journal articles of famous researchers who have previously conducted several researches on the same field. These articles are retrieved from well-known websites like researchgate.net, academia.edu etc. the study is based on the theoretical analytical approach to reach the results by reviewing the previous studies and concept of debt financing, the impact on productivity of the business, and the relationship between debt finance and profitability of the business.

The data was organized according to the relevance to the study about to be conducted. Data processing was done non-analytically to achieve the goal of the study. This is the procedure of looking at, and modeling information with the objective of extracting helpful data, connoting conclusions, and supporting conclusions. The gathered data was analyzed by employing descriptive statistics such as mean and standard variations. The data were analyzed using multivariate regression analysis. A multivariate regression model was formulated for the data analysis.

Discussion

Literature Review

The business can finance their operations using retained earnings, debt and equity. Debt finance is raised by borrowing from financial institutions. Studies have been carried out focusing on the effect of debt financing on performance of business. The literature review consists of 10 articles from different renowned researchers having different perceptions regarding influence on the business profitability such as use of debt finance.

Cecchetti, Mohanty, and Zampolli (2011) studied the real effects of debt on firms and concluded that moderate debt level improves welfare and enhances growth but high levels can lead to a decline in growth of the firm. **Reinhart and Rogoff (2009)** argued that debt impacted positively to the growth of a firm only 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 (Cecchetti *et al.*, 2011). High levels of debt will constrain the firm from undertaking projects that are likely to be profitable because of the inability to attract more debt from financial institutions.

A high proportion of debt in the capital structure of a firm will harm investment using internal funds. A firm with a high debt ratio will channel most of its income to debt repayments thereby forgoing investment using internal funds. As more debt is employed in the capital structure of a firm, the business risk also increases. **He and Matvos (2013)** stated that leveraging may increase the risk of bankruptcy and financial distress during temporary industry and economy-wide downturns. It will become increasingly difficult to attract more debt for investment purposes as creditors will charge high interest rates to compensate for the high business risk.

Creditors will be reluctant to lend more funds to a highly indebted firm which can result in underinvestment. Firm operations will be affected if insufficient investment is undertaken. It based on this that different studies have tried to study the relationship between debt finance and profitability of firms.

Ahmad, Abdullar and Roslan (2012) carried a study in Malaysia which sought to investigate the impact of capital structure on firm performance by analyzing the relationship between return on assets (ROA), return on equity (ROE) and short-term debt and total debt. The study established that short term debt and long-term debt had significant relationship with ROA. It was also established that ROE had significant relationship with short-term debt, long-term debt and total debt. **Maritala (2012)** examined the optimal level of capital structure which enabled a firm to increase its financial performance. The study found that there was a negative relationship between the firm's debt ratio and financial performance measured by return on assets and return on equity.

Mumtaz, *et al* (2013) carried out their study in Pakistan. They wanted to establish the relationship between leverage and firm performance. The findings from the study showed that financial performance of firms was significantly negatively affected by their capital structure.

Soumadi and Hayajneh (2012) The study investigates the effect of capital structure on the performance of the public Jordanian firms listed in Amman stock market. The study used multiple regression model represented by ordinary least squares (OLS) as a technique to examine what is the effect of capital structure on the performance by applying on 76 firms (53 industrial firms and 23 service corporation) for the period (2001-2006).The results of the study concluded that capital structure associated negatively and statistically with firm performance on the study sample generally. In addition, the study found out that there was no significant difference to the impact of the financial leverage between high financial leverage firms and low financial leverage firms on their performance. Finally, the study also showed that the effect of financial leverage on the basis of the growth that there is no difference between the financial leverage of high growth firms and low growth firms on the performance, which it was negatively and statistically.

Saeed, Gull, and Rusheed (2013), examined the impact of capital structure and corporate performance using multiple regression models to estimate the relationship between capital structure and corporate performance of the banking sector. The findings from the study showed that there was a negative relationship between capital structure and performance of the banking industry.

Ogebe, Ogebe and Alewi, (2013) investigated the impact of capital structure on corporate performance in Nigeria from 2000 to 2010.The study paid particular attention to macroeconomic variables (Gross Domestic Product and inflation) on firm performance. The study concluded that there was a strong relationship between leverage and corporate performance. The study concluded that there was a significant negative relationship between capital structure and corporate performance.

Yazdanfar and Ohman (2015) carried out an empirical study on debt financing and firm performance. The purpose of the study was to examine the relationship between debt level and performance of small and medium-sized enterprises in Sweden. They used three-stage least squares (3SLS) and fixed-effects models to analyze a comprehensive, cross-sectional sample of 15,897 Swedish SMEs operating in five industry sectors during the 2009-2012 period. The study found that debt ratios, in terms of trade credit, short-term debt and long-term debt, negatively affect firm performance in terms of profitability.

Nassar (2016) studied the impact of capital structure on the financial performance of industrial companies in Turkey. The annual financial statements of 136 industrial companies listed on the Istanbul Stock Exchange (ISE) were used for the study, which covered a period of 8 years from 2005-2012. He used multivariate regression analysis to test the relationship between capital structure and firms financial performance. To measure firm performance, he used indicators such as Return on Asset (ROA), Return on Equity (ROE) and Earnings per Share (EPS) and then Debt Ratio (DR) as variable for capital structure. The results of the research showed that there is a negative significant relationship between capital structure and firms performance.

Also **Ebaid (2009)** posited that there is no significant relationship between debt finance variables and financial performance proxies.

Ebaid (2009) examined the relationship between debt level and financial performance of companies listed on the Egyptian stock exchange. The study used return on assets, return on equity and gross profit margin as dependent variables and short-term debt, long-term debt and total debt as independent variables. The results from the study showed that there was a negative impact of short-term debt and total debt on return on assets (ROA). The study also concluded that there was no significant relationship between long-term debt financing and ROA. Ebaid also concluded that there was insignificant relationship between total debt, short-term debt and long-term debt and financial performance measured by gross profit margin and ROE.

Findings

After analyzing the literature review in the context of the scenario of the debt impact on the organization it seems that:

1. The findings indicate that debt to asset ratio has negative relationship with net profit margin and return on asset. Similarly, debt to equity ratio has a negative relationship with return on asset and net profit margin. Thus, debt financing has a negative relationship with business's financial performance. However, sales growth has a positive relationship with the return on assets and net profit margin. Therefore, it is recommended that business concern should meet their financing need through internal sources and debt is considered as last resort.
2. It is based on this divergence of views that this study attempts to find out the effect of debt financing on the profitability of different companies, so as to take a position on the relationship between debt financing and profitability. Also to the best of the author’s knowledge, most of the studies carried out in this area in Bangladesh have focused on other sectors like the Banking sector and Manufacturing companies. But this study is focusing on the various sector because of how important debt finance is to its operations.
3. The nature of debt is an important determinant of profitability of a firm. If a firm has access to long-term debt finance, it can invest in new capital and equipment which helps to increase productivity and hence, make the firm more profitable. The inability to access long-term finance can force firms to use short-term debt to finance long-term projects. This will create mismatches of assets and liabilities and depletes working capital. Depletion of working capital will negatively affect firms operations. It is crucial that the primary source of loan repayments should be cash flows from the project.
4. cost of capital at its minimum. Debt finance comes with a cost, which is interest. Therefore, even though agro companies need long-term debt financing to fund their investment activities, they still need to be mindful of the amount of debt they incur into their capital structure. The finding of this study is not consistent with the findings of Ebaid (2009) and Fosu (2013). Ebaid (2009) argued that there is no significant relationship between debt finance variables and profitability variables, while Fosu (2013) concluded that there is a positive relationship between debt finance and profitability.

5. They also found in their studies that debt capital has a significant negative effect on profitability. These results can be linked to the theory adopted in the study, which states that a certain level of debt has to be maintained in the capital structure so as to keep the
6. Based on the results of the multivariate regression analysis which shows that debt financing significantly affects profitability, we therefore reject the null hypothesis formulated for the study which states that: Debt financing has no significant effect on the profitability of listed agricultural companies. The result of this study shows that debt financing measured by the proportion of long-term debt in a sampled company's capital has a significant negative effect on the profitability of the company.
7. A study can be carried on the factors that influence debt financing in different sector and the major factors that influence their financing choice. A study can also be carried out on the major capital source for companies and the challenges faced by the company's owner towards accessing finance. The choice of long term and short term debt is different, due to their borrowing attitudes. Therefore, the result of this empirical research will be represented in the different debt categories. The analysis will be carried out to find out the difference between the impact of business earning on short term and long term debt.
8. The study finally found a positive and insignificant relationship between revenue growth and profitability status of business. This is an indication that revenue growth does not significantly affect the profitability status of business. On the contrary supports that growth over a given time in the monetary gains of a firm is a good measure of performance as it signifies that a firm is constantly making improvements.
9. As the number of years increase since a firm starts its operation, the amount of accumulated funds accordingly will increase. Therefore, older firms are less likely to use external funding since they can use their internal funds to finance their projects. On the other side, young firms may not have access to a sufficient amount of internal funds, and they are more likely to use external financing.

The following model was used as the analytical model:

Profitability = Constant + Debt Ratio + Error Term

Profitability is measured by Returns on Assets (ROA) and Earnings per Share (EPS)
Return on Assets (ROA) is measured as Profit before interest and taxes divided by Total assets.
Earnings per share (EPS) is measured as Profit after interest and taxes divided by Average outstanding equity shares.
Debt Ratio (DR) is measured as Long term debt divided by Equity + Reserves + Long term debt expressed in percentage. B0 is the constant in the model, ε is the error term
Therefore, the econometric model is expressed as: $ROAit + EPSit = \beta 0it + \beta 1DRit + \varepsilon it$

Table: Multivariate regression. mvreg roa eps = debtratio

Equation	Obs	Arms	RMSE	"R-sq"	F	P
ROA	20	2	12.23989	0.3008	7.744648	0.0123
EPS	20	2	1.850245	0.5744	24.29143	0.0001

		Coef.	Std.Err.	T	P>|t|	[95% Conf.	Interval]
ROA	debt ratio	-.6795089	.2441711	-2.78	0.012	-1.192493	-.1665244
	_cons	32.18167	9.43992	3.41	0.003	12.34913	52.0142
EPS	debt ratio	-.1819167	.0369102	-4.93	0.000	-.259462	-.1043713
	_cons	8.046007	1.426987	5.64	0.000	5.048019	11.044

$ROA = 32.18167 – 0.67951(DRit) + \varepsilon it$ and $EPS = 8.046007 – 0.18192(DRit) + \varepsilon it$
From the table above, the R-square values are showing that changes in debt ratio will cause a 30% change in ROA and 57.4% change in EPS. This signifies that debt ratio is a determinant of both dependent variables. The probability F-values of the regression are significant at 0.0123 and 0.0001, this shows that the model formulated for the study is fit for the data. The multivariate regression result shows the effect of debt ratio on both dependent variables separately. For return on assets (ROA), the table shows that debt ratio has a p-value of 0.012, a t-value of -2.78, and a coefficient of -0.6795. This means that debt financing measured by debt ratio has a significant negative effect on profitability measured by return on assets. This result implies that an increase in debt ratio will cause a 0.68 decrease in return on assets.
For earnings per share (EPS), the result shows that debt ratio has a p-value of 0.000, a t-value of -4.93 and a coefficient of -0.1819167. The p-value is showing a significant value below the 0.01 significance level. This result means that debt ratio has a very significant negative effect on earnings per share. This also implies that debt financing measured by debt ratio has a significant negative effect on profitability measured by earnings per share. An increase in debt ratio will cause a 1.8% decrease in earnings per share.

Future Forward

Several limitations came up while doing this study though it's expected that these limitations have not affected the process or outcome of the study. It's supposed that these limitations will be satisfied in the future research.

1. This study were reviewed only 10 articles. Clearly, there will be other debt financing related articles published in other journals. However, in mitigation of this limitation, the strength of the study is the ability to make comparisons with the findings of the earlier study of debt finance related work conducted by other researchers. By comparing the results of this study with those of other researchers, it has been identified with some certainty that the significant changes and trends that have influenced on the business concern.
2. Each article was classified based on the judgment of the authors. The fact-finding for classifying the articles in this study, the fundamental theories and research methods used different sector from the other researcher's perspectives. However, these differences are only minor and that the comparisons made of the results are accurate and that the impact of debt finance on the profitability of the business are persistent and real.
3. Information was not sufficient. It was hard to obtain some of the information from the websites.
4. Some of the theories and definitions don't get matched entirely with the present context of the economy and different organization in local and aboard. It gets matched partially instead.

Recommendation & Conclusion

The study recommends on debt financing by several sectors in several counties. The study concludes that profitability in a firm was negatively affected by the level of debt financing in its capital structure. The level of debt financing must be moderate to avoid large interest payments where the companies using internal sources of finance. The risk is also lower when internal sources of finance are used. Though different companies need debt finance to invest in capital projects like purchasing equipment & machinery, they still need to be aware to keep the level of debt in their capital structure moderate, so as to avoid having a high cost of capital which will negatively affect profit. It is also recommended that banks charge lower interest rates to encourage businesses to borrow. High interest rates deter investors from using debt financing. Ideally the primary source of loan repayment should be cash inflows generated from the project in which the loan was invested. If the level of debt finance is well managed, and properly invested, the businesses will become more profitable and this will help the entire economy.

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Acronym

1. DR- Debt Ratio
2. ROA- Returns on Assets
3. ROE- Return on Equity
4. EPS- Earnings per Share
5. GDP- Gross Domestic Product

Appendices

Appendix 1: Introducing Consulted Articles

SI	Article Title	Author(s)	Journal Name	Volume (Issue), page no.	Year	Publisher
1	The Real Effects of Debt.	Cecchetti, G. S., Mohanty, M. S., & Zampolli, F.	Bank for International Settlements	352, 39	2011	biswps
2	Capital Structure and Effect on Firms Performance	Ahmad, Z., Abdullah, H. M. N., & Roslan, S.	International Review of business Research	8(5), 137-155	2012	researchgate
3	Effect of Debt Financing on Business Performance	Harelimana	Global Journal of Management and Business Research	17(2), 37-45	2017	global journals inc.
4	Debt financing and firm performance of the firms	Yazdanfar, D., & Ohman, P.	The Journal of Risk Finance	16(1), 102-118	2015	emerald
5	Capital Structure and Financial Performance	Mumtaz, R., Shahnaz, A. R., Bashir, A., & Umara, N.	Journal of Basic and Applied Scientific Research	3(4), 113-119.	2013	researchgate

6	The Impact of Capital Structure on Financial Performance of the Firms	Nassar, N.	Journal of Business & Financial Affairs	5(173), 1-4	2016	researchgate
7	The impact of Capital Structure on Firm's Performance	Ogebe, P. O., Ogebe, J. O., & Alewi, K.	International Journal of Scientific and Research Publications	3 (5), 1-9	2013	academia
8	Foreign Capital and Economic Growth.	Paul, S., & Cong, N. T.	Australian Economic Papers	43(4), 396-405	2004)	researchgate
9	Impact of Capital structure on Banking Performance: A Case Study of Pakistan.	Saeed, M. M., Gull, A. A. & Rusheed, Y. M.	Interdisciplinary Journal of Contemporary Research in Business	4(10), 393-403	2013)	researchgate
10	Capital Structure and Corporate Performance: Empirical Study on the Public Jordanian Shareholdings Firms listed in the Amman Stock Market.	Soumadi, M. M., & Hayajneh, O. S.	European Scientific Journal	8(22), 173-187	2012	academia

Appendix II : Complication of objectives/purpose/hypothesis addressed by the articles

Article	Objective/purpose/hypothesis
1	Objective The real effects of moderate debt level and high debt level on the business.
2	Objective To investigate the impact of capital structure on firm performance by analyzing the relationship between return on assets and debt.
3	Purpose To examine the indicators of the debt of BK and I&M Bank. To measure the relationship between debt level and financial performance for BK and for I&M Bank.
4	Purpose to examine the relationship between debt level and performance of small and medium-sized enterprises.
5	Objective To establish the relationship between leverage and firm performance.
6	Objective To maximize its profits and in the same time minimize its costs, when companies search about resources to finance its investments they take this objective in consideration.
7	Purpose To determine the impact of leverage on the value of firms. It intends making a comparison between the firms‟ value of lowly and highly geared companies and establish whether an optimal capital structure exists.
8	Objective To examine the economic implications of institutional arrangements by which foreign investors are required to reinvest a certain percentage of their capital within the host country. Our analysis shows that foreign capital inflow can produce long-lasting economic benefits to the host country only when the foreign capital reinvestment rate is sufficiently greater than the host country's saving rate.
9	Objective To measure the impact of capital structure on banking performance to provide empirical evidence regarding Pakistani banking sector.

10	Objective Investigates the effect of capital structure on the performance of the public Jordanian firms listed in Amman stock market.

Appendix III: Complication of Methods used in the articles

Article	Methods used
1	Review trends in household, non-financial corporate and government debt by correlation of debt and growth regressions.
2	The complication method used in return on asset (ROA), return on equity (ROE), short-term debt (STD), long-term debt (LTD) and total debt (TD).
3	To use multiple regression model, Correlation value, Debtlevel and Sustainability.
4	To use three-stage least squares (3SLS) and fixed-effects models to analyze a comprehensive, cross-sectional industry sample of 15,897 Swedish SMEs operating in five industry sectors during the 2009-2012 period.
5	To use capital structure, financial performance, firm risk and firm value.
6	To use multivariate regression analysis and indicators such as ROA, ROE, EPS, DR.
7	The framework is adapted from the traditional capital structure theory, but augmented with macroeconomic variables to determine the impact of macroeconomic variables on firm's performance. The chapter also entails the stated hypothesis for the study, model specification and source of data, method of data analysis, data description
8	The term sector is used only for convenience to distinguish between the production activities involving the national and foreign capital. With neo-classical technology, this would also result into an equal capital-labour ratio and an equal rate of return to capital across sectors.
9	This method is used to explain the results of descriptive statistics, correlation and regression technique.
10	By using multiple regression model represented by ordinary least squares.

Appendix IV: Complication of conclusions of the articles

Article	Conclusions
1	To high debt is bad for growth.
2	The study finds that only STD and TD have significant relationship with ROA while ROE has significant on each of debt level. However, the analysis with lagged values shows that non of lagged values for STD, TD and LTD has significant relationship with performance.
3	There is a significant positive relationship between debt level and financial performance. The results indicate that the overall bank performance in terms of profitability, sustainability and liquidity has been improving.
4	As a high debt ratio seems to increase the agency costs and the risk of losing control of the firm, SME owners and managers tend to finance their businesses with equity capital to a fairly high degree.
5	A high level of debt negatively impacts a firm's return on equity, return on assets and earnings per share. However, when performance is measured as net profit margin of firms its relationship with firm capital structure is not significant.
6	The conclusion of the research showed that there is a negative significant relationship between capital structure and firms performance.
7	A strong relationship between leverage and corporate performance. The study concluded that there was a significant negative relationship between capital structure and corporate performance.
8	The host country can simply set a low national saving rate and attempt to institutionally set a higher foreign capital reinvestment rate for foreign investors in order to achieve higher economic growth.
9	To provide an empirical evidence regarding influence of capital structure on profitability of banking sector. A strong positive dependence of short term debt to capital on all profitability measures (ROA, ROE and EPS). Long term debt to capital having a negative relationship with (ROA, ROE and EPS).
10	There are no significant differences between high levered firms and low levered firms to effect of financial leverage on firm performance. The result also revealed negative and significant relationship. In addition to prior, the study that financial leverage related inversely and significantly on firm performance regardless of growth of firms.