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## Effects of Debt Financing on Financial Performance of Manufacturing Firms in Kenya

Immaculate Wayua Naomi <sup>1\*</sup>

<sup>1</sup>Department of Accounting and Finance, Technical University of Mombasa, Kenya. E-mail: [wayuanaom123@gmail.com](mailto:wayuanaom123@gmail.com)

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### Abstract

This study examines the conditions associated with long-term debt financing, including the obligation to repay borrowed funds on predetermined dates, the interest rate, loan duration, leverage level, and interest coverage ratio. Debt financing, being a crucial element in the growth and sustainability of businesses, has the potential to influence the outcome of financial performance in a variety of ways. The research commences by carefully analyzing the circumstances that are typically linked with long-term debt financing, which emphasizes the duty to repay any borrowed funds on predetermined future dates. Additionally, the study highlights the influential factors that may come into play, including but not limited to the interest rate charged on loans, loan duration, leverage level, and interest coverage ratio. A comprehensive review of the empirical literature provides valuable insights into the relationship between debt financing and financial performance. While some studies seem to suggest positive outcomes, such as increased profitability, others bring to the forefront the potential negative consequences that may arise, such as agency problems, information asymmetry, and financial distress costs. This study acknowledges the research gaps that exist within the current literature and emphasizes the importance of delving deeper into the specific impact that debentures, trade credit, and loans may have on the financial performance of manufacturing firms in Kenya.

**Keywords:** Financial Performance, Trade credit, Debentures, Long term Loan, Manufacturing firms

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### 1. Introduction

Debt financing involves the utilization of borrowed funds by companies, which encompasses both long-term and short-term external financing. It entails acquiring funds from external sources like bondholders, banks, and financial institutions to support the growth and ongoing operations of a firm. The decision to opt for debt or equity is a crucial aspect of the company's capital structure choices. In today's corporate finance landscape, managers grapple with the dual challenges of improving their companies'

financial performance and determining the optimal business funding option. These managers also face the triple demand of generating wealth for investors, maintaining business operations, striking a balance between risk and return, and contributing to overall economic growth. Despite existing evidence suggesting that debt is a primary source of funding a firm's long-term activities and has a significant impact on its performance, finding the ideal capital structure remains a persistent challenge (Nyamita, 2014).

This study focuses on the theory that financial policies

such as debt financing can either have positive or negative implications for a company's competitive performance. Modigliani and Miller (1961) proposed that in efficient and complete global markets, debt financing affects a firm's real investment choices and overall market value. Since Modigliani and Miller's influential 1963 works, empirical research on the impact of debt financing on a firm's financial performance has significantly advanced. In modern times, practical studies have emerged to examine the relevance of debt financing to the firm's capital investment behavior theories. Different sources of debt may also have varying effects on managerial incentives and address moral hazard concerns. For instance, excessive debt can diminish managerial incentives, resulting in underperformance, while bank debt, with its enhanced monitoring capabilities, may improve managerial performance and increase the likelihood of project success by exerting greater influence on managerial decisions. (Pradhan, Shyam, & Khadka 2017).

According to Baker (1973), it was found that a higher amount of debt in a company's financial structure is associated with increased risk. As a result, this higher risk level leads to higher industry profits. This observation aligns with the theory of portfolios, which suggests that higher returns on securities are linked to higher levels of risk. Rose (1977) focused on the connection between a firm's financial structure and how it is perceived by various stakeholders. The research argued that when a firm includes debt in its capital structure, it sends a strong signal to the market about its intentions to continue its operations. Rosen and Lewellen (1995) centered on leveraged buyouts and found a notably positive relationship between profitability and the total debt as a percentage of the total buyout-financing package. Rajin (2012) examined the impact of financial leverage on shareholders' returns and market capitalization, particularly focusing on telecommunications sector companies in India. The findings indicated a positive relationship between financial leverage and shareholders' returns. Nasrollah (2013) aimed to explore the effect of financial leverage on investment diversification and income-earning engagement. The results revealed that leverage indeed influences increased engagement and income.

Modigliani and Miller (1963) advocated for the inclusion of greater debt in a company's capital structure to boost its value, resulting in higher returns, increased stock prices, and improved management efficiency (Ahmad, Bakar, & Islam, 2020). Nevertheless, employing debt financing in a company's operations comes with certain drawbacks. For instance, if the total repayments exceed the initial amount borrowed, it can create distress for the firm, particularly for those in their initial stages of development. Nevertheless, this does not mean that debt financing is entirely detrimental, as it can enable firms to grow at a faster pace compared to relying solely on a smaller amount of leverage.

To attain profitability and optimize the value of a

company, it is crucial to attain an appropriate level of debt, particularly in a competitive business environment (Yazdanfar & Ohman, 2015). While debt financing is cost-effective and offers tax advantages, relying solely on it is not advisable. However, determining the optimal extent to which debt financing leads to the best performance for a company remains uncertain. A comprehensive examination of past empirical studies indicates a negative correlation between debt financing and firm performance.

The conditions associated with long-term debt financing include the obligation to repay the borrowed funds at a predetermined future date. Consequently, the return on equity for a leveraged company is influenced by several factors, such as the interest rate charged on the loan, the duration of the loan repayment, the level of leverage, and the interest coverage ratio (Liu, Chen, & Deng, 2023). Various theories exist to assist companies in determining their optimal capital structure. For instance, the Modigliani and Miller (1958) theory suggests that firms can take advantage of tax-deductible debt financing, which adds to its attractiveness, although this is based on certain assumptions.

Consequently, due to the tax advantages of debt and the lower risk compared to equity, companies are more inclined to opt for debt financing. Additionally, the legal obligation to make debt payments, regardless of the company's performance, can serve as a means to attract investors by minimizing their risk. However, a company that becomes overly burdened with debt or takes on excessive borrowing will encounter another issue. In the event of liquidation, debt holders are given priority over equity holders, which can potentially push the company into bankruptcy. Unfortunately, this was the primary catalyst for the global financial crisis between 2007 and 2009.

## 2. Problem Statement

In recent years, manufacturing firms have increasingly relied on debt financing to support their operations and growth. Statistics indicate that the levels of debt in manufacturing firms have been steadily rising, with an average debt-to equity ratio of 28%. This high level of debt raises concern about its potential effect on the financial performance of these firms. Specifically, it is observed that manufacturing firms with substantial debt financing may experience challenges such as increased interest expenses, reduced profitability, and higher financial risk (Nyamita, 2014). These factors can have significant implications for the overall financial health and sustainability of manufacturing firms.

The expectation for using debt financing is that, when used judiciously, it can have positive effects on the financial performance of manufacturing firms. By leveraging debt, firms can fund new investments, expand their operations, and take advantage of growth opportunities. This infusion of capital can lead to increased production capacity, improved efficiency, and higher sales revenue. Moreover,

debt financing can provide a tax advantage by allowing firms to deduct interest expenses from their taxable income. These anticipated benefits are expected to enhance financial performance indicators such as profitability, return on assets, and overall shareholder value.

While debt can provide opportunities for growth and expansion, excessive debt levels or mismanagement of debt can create financial burdens. The negative effects, such as increased interest expenses, reduced profitability, and higher financial risk, indicate that some manufacturing firms may have taken on too much debt or failed to effectively manage their debt obligations. This could be attributed to factors such as economic downturns, industry-specific challenges, or poor financial management practices. Consequently, there exists a gap between the expected positive outcome and the actual performance due to the adverse consequences of debt financing in manufacturing firms. Understanding and addressing this disparity is crucial for devising strategies to optimize debt usage and mitigate potential risks, thus ensuring sustainable financial performance in the manufacturing sector.

### 3. Literature Review

In this section, a literature review is presented centered on the relationship between debt financing and the financial performance of manufacturing firms. The initial section delves into pertinent theories that elucidate the effect of debt financing on financial performance. The chapter incorporates a conceptual framework and empirical studies and culminates with a comprehensive summary of the literature review.

#### 3.1. Theoretical framework

This research builds upon established financial theories that explore the relationship between capital structure and performance. Specifically, it draws upon two significant theories: the pecking order theory and the trade-off theory. These well-regarded theories provide valuable insights into understanding how capital structure decisions and financial performance are interconnected.

##### 3.1.1 Pecking-order theory

The Pecking Order Theory holds considerable significance in the descriptive literature. It was formulated by Myers (1984) within the domain of corporate finance, specifically focusing on capital structure. This theory serves as an alternative to the trade-off theory, which assumes a perfect hierarchical arrangement for financing decisions within firms. According to the Pecking Order Theory, companies prefer to first use internal financing sources, such as retained earnings, then turn to debt issuance, and finally resort to equity issuance as a last option. This theory provides insights into the financial decision-making processes of firms. Shyam-Sunder and Myers (1999) have observed that the pecking order theory accurately predicts the impact of profits. However, Fama and French (2002) and Frank &

Goyal (2003) have identified some additional complications associated with this theory as well.

The Pecking Order Theory further elaborates on the significance of asymmetric information between insiders and outsiders within a firm. It suggests that the costs and benefits associated with outside financing, as emphasized in the trade-off theory, become less important when compared to the costs related to issuing new securities through internal financing. Transaction costs related to external sources of financing also play a crucial role in determining the choice of financing methods. Studies, such as one by Baskin (1989), have shown that debt has lower transaction costs compared to equity issues in the US markets. Managers, as evidenced by research by Holmes and Kent (1991) and Hamilton & Fox (2000), are generally reluctant to lose control over their firms. Consequently, they prefer not to bring in new shareholders and instead attempt to fund projects using internal funds whenever possible. If the firm lacks sufficient internal funds, management will seek short-term financing first, as it does not require collateral, followed by long-term debt, and only as a last resort, external equity issuance, as predicted by the pecking order theory.

According to Shaikh, Naseem, and Mubasher (2019), pecking order theory, companies prefer domestic financing compared to external financing. They further argue that if companies require external financing, then they prefer debt to equity as a last alternative. When it comes to dividend distribution and the use of debt to raise the value of a company, companies take a conservative approach.

This theory offers valuable insights for manufacturing firms in regards to financial hierarchy. Understanding this hierarchy helps the firms determine their preferred financial options and the order in which they should pursue them. It also helps with information asymmetry, where the theory acknowledges the information gap and suggests that internal financing reduces the need for firms to disclose sensitive information to external investors.

##### 3.1.2 Trade-off Theory

Myers (1984) introduced the trade-off theory as a response to discussions surrounding the Modigliani-Miller theorem. According to this theory, a company will choose to borrow up to a specific threshold where the added value from tax benefits on interest payments equals the increase in the present value of bankruptcy costs (Myers, 2001). Expanding on the classical version of the trade-off theory, Kraus and Litzenberger (1973) demonstrated that the market value of a leveraged company is equivalent to the market value of an unleveraged company (not influenced by leverage), plus the present value of tax savings from interest payments on debt, minus the present value of bankruptcy costs. This theory suggests that the optimal debt level for a company is achieved by balancing the costs of bankruptcy with the advantages of tax deductions.

A study by Hashemi et al. (2013) highlights that the trade-

off theory aims to strike a balance between anticipated outcomes and the costs associated with financing decisions. Consequently, a company might opt for debt financing due to the tax advantages it offers. In theory, interest payments on debt are considered expenses in the income statement, making them deductible from the income before tax calculation. This deduction leads to tax savings, ultimately increasing profits (Myers, 2001). As a result, firms should carefully consider debt financing options, taking into account the balance between tax benefits and associated costs.

Furthermore, according to the trade-off theory, a company should borrow up to its optimal level, as taking on excessive debt commitments may lead to a decline in the firm's productivity (Kimathi, 2019). The burden of servicing debt obligations can result in financial difficulties for the firm if it fails to meet the requirements of its debt holders, ultimately leading to insolvency if no trade-off is achieved. Empirical evidence has shed light on both the advantages and disadvantages of the trade-off theory (Makanga, 2015; Fama & French, 2002).

As stated by Fasasi and Nnejwuihe (2022), the trade-off theory suggests that a firm's decision regarding its debt-equity ratio involves a trade-off between the costs of financial distress and the tax advantages of debt. By taking on debt, companies can deduct interest charges, which creates an incentive to use higher leverage to maximize tax benefits. According to this theory, firms will favor debt over equity up to a certain point where the risk of financial distress becomes significant. This implies that debt financing is preferred up to the optimal level, and after that point, equity financing becomes more favorable.

The trade-off theory is useful to manufacturing firms as it guides their capital structure decisions. By weighing the costs and benefits of debt, such as tax advantages and bankruptcy costs, firms can identify the level of debt that maximizes their value. It also influences manufacturing firms' investment decisions by considering the effect of debt on their cost of capital.

**3.2. Conceptual framework**

The conceptual framework illustrates the interconnectedness of the variables used in the study, as illustrated in Figure 1.

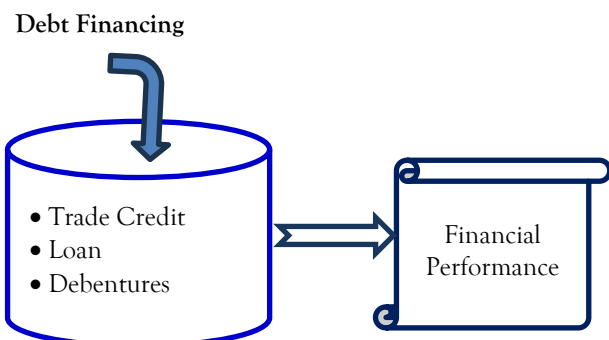


Figure 1: Conceptual framework

Trade credit refers to an arrangement between business partners that allows for the exchange of goods and services without an immediate requirement for payment. This occurs when a seller permits a buyer to defer payment for the goods or services to a later date. Scholars have acknowledged trade credit as a significant alternative to bank loans, especially for small and medium enterprises (SMEs) seeking external funding. Moreover, several authors have emphasized the role of trade credit as a protective measure for companies facing liquidity challenges (Wilner, 2000; Boissay & Gropp, 2007; Cunat, 2007). Rodríguez (2006) proposed that trade credit helps suppliers reduce transaction costs associated with individual business transactions.

A debenture is a form of debt instrument used by companies or government entities to secure funds from investors. It is a long-term debt security that symbolizes a loan given by the investor to the issuer. Unlike other types of debt, debentures are typically supported by the overall financial stability and standing of the issuer rather than specific assets. (Odeyo et al., 2009)

Short-term debt is a classification found within a company's current liabilities on its balance sheet, encompassing any debt that must be repaid within one year (Olaniyi, Elulu, & Abdusalam, 2015). This type of debt mainly comprises short-term bank loans and similar obligations. Short-term loans are typically used to finance current assets that can be readily converted into cash, such as accounts receivable and inventory. Long-term debt financing refers to the act of borrowing money that is intended to be repaid over a period that exceeds one year (Cyril, 2016). This type of financing includes bonds and long-term loans. Typically, these bonds come with higher interest rates, as lenders expect a higher return to compensate for the increased risk associated with lending money over an extended timeframe. In practical terms, opting for long-term debt can restrict managerial flexibility by reducing the chances of obtaining new funds and discouraging excessive investments (Hart & Moore, 1995). The long-term debt-to-total assets ratio is a metric used to assess the extent of an organization's reliance on long-term debt financing. Businesses utilize this form of financing to secure funds for day-to-day operational expenses or capital investments by issuing corporate bonds, trade bills, or notes to individual or institutional investors. By accepting these loans, these individuals or institutions become creditors and receive assurance that the borrowed amount, along with interest, will be repaid.

**3.3. Empirical literature review**

**3.3.1 Trade credit and financial performance**

According to Smith (1987), the seller becomes aware of the buyer's financial condition when the buyer takes on costly trade credit. In response, the seller chooses to support the struggling buyer gradually to protect their investment in their long-term business relationship. (Cunat, 2002) states

that the supplier needs to intervene to ensure the survival of the buyer. Wilner, (2000) discovered that companies facing financial challenges tend to renegotiate with their trade creditors. His study examined the relationship between the real interest rate and the implicit interest rate applied to trade credit. He argued that when the real interest rate increases, trade creditors become less willing to renegotiate. Analyzing data from Jordanian companies between 1995 and 2015, the researcher found that trade credit has a positive impact on firm performance. Abuhommous (2014) suggested that this impact is influenced by certain characteristics of the company, such as its size, liquidity, and fluctuations in revenue. The study indicated that financially stable large businesses experiencing significant changes in revenue use accounts receivable strategically to increase their profits. In 2014, Martinez-Sola and colleagues conducted a study in Iberia focusing on how trade credit, particularly through accounts receivable, affects the profitability of small and medium-sized enterprises (SMEs). They employed regression analysis and analyzed data from 11,337 SMEs spanning the years 2002 to 2007. The results of their research demonstrated that accounts receivable play a significant role in enhancing the profitability of SMEs. In 2019, Hoang et al. conducted a separate investigation in the East Asia and Pacific region to examine the relationship between trade credit and SME profitability during financial distress. The study covered nine countries in East Asia and Southern Asia and collected data from 2010 to 2016. Their findings unveiled a U-shaped relationship between trade credit and profitability, suggesting that there exists an optimal level of trade credit that maximizes SME profitability. Emery (1984) explains that trade credit can be used to exploit differences in borrowing and lending rates available to a firm, acting as a form of arbitrage. Additionally, trade credit may help alleviate credit rationing. When a seller provides trade credit, it signals to investors that the buyer is creditworthy, prompting the investor to offer more favorable financing terms than they would have otherwise.

### 3.3.2 Debentures and financial performance

Machel (2013) conducted a study to examine how the issuance of bonds impacted the stock price performance of companies listed on the Nairobi Securities Exchange (NSE). The study focused specifically on companies listed on the NSE that had used bonds or notes as a form of debt. A total of six listed companies meeting the predetermined criteria were selected as a sample for the study. To analyze the data and draw conclusions, the researcher utilized a parametric t-test at a 5% significance level. The findings of the study revealed that the impact of bond issuance on share prices could vary in different directions. In some cases, the issuance of bonds had a positive effect on the share price of the issuing company. However, in other instances, it had a negative effect or showed no significant impact, which aligned with the objectives of the study.

Malm and Roslund (2013) conducted a study to explore

the association between the bond-to-total debt ratio and firm performance. The research specifically focused on the Norwegian market, known for its well-developed and mature bond market. The study adopted a quantitative approach and utilized multiple correlation analyses to examine the relationship between the ratio and firm performance. The findings indicated that, within the specific context of Norway, the bond-to-total debt ratio did not have a significant impact on firm performance. The results revealed an insignificant relationship between the bond-to-total debt ratio and firm performance. As a result, these findings suggest that professionals in the sector need not be concerned about the potential effects of bonds on firm performance. The disbursement of dividends is believed to have a negative impact on the decision-making process of investors, whereas the utilization of debt financing is perceived to have a positive influence on their investment choices. Moreover, the act of financing and investing in debt is considered to have an adverse effect on the overall profitability of a company (Mukhongo, et al., 2022).

Becker and Ivashina (2015) explored the phenomenon of "reaching for yield" in the bond and debenture markets. The behavior refers to investors' tendency to purchase riskier assets in order to attain higher yields. The research indicated that issuing corporations, which were the largest institutional holders of company bonds, also pursued higher yields when making investment decisions. The study proposed that this behavior of reaching for yield was evident in the primary and secondary markets and was influenced by various factors such as bond liquidity, maturity, and characteristics specific to the issuer. Furthermore, the study compared the performance of bonds acquired by issuing companies after the fact. The results showed that there was no significant outperformance observed, but these bonds exhibited higher systematic risk and volatility.

### 3.3.3 Loans and financial performance

Madole (2013) emphasized the crucial role of bank loans in fostering the growth of small businesses. He asserted that the loan amount is strongly and positively correlated with the performance of micro and medium enterprises. Moreover, Madole suggested that both government entities and microfinance institutions should actively promote microfinance loans by raising awareness among SMEs, especially those situated in remote and semi-urban areas that have not yet benefited from the program. Additionally, he recommended increasing the loan amounts provided by microfinance institutions to MSEs to facilitate their growth into medium-scale enterprises (Wanambasi & Bwisa, 2013). Berger and DE Young, (1997) used the causality approach of Granger to determine the interrelationship of the problem loan studies with bank effectiveness literature, where they realized that poor management in banks results in loan payments of poor quality, which in turn leads to a rise in the number of bad loans or non-performing loans, reducing the profitability of the institution. According to their findings, a

careful selection of potential clients should be made when giving loans because poor selection leads to high-quality customers being replaced with low-quality customers. In return, the bank's loan portfolio will deteriorate, leading to growth in non-performing loans and a reduction in profitability. [Dongili and Zago, \(2005\)](#) conducted a study to examine the relationship between defaulting loans and the economic efficiency of commercial banks in Italy. The research used statistical methods to evaluate the problem loan, which results in financial challenges for commercial banks, as well as to realize a focal association between non-performing assets and the economic performance of the identified banks.

#### 4. Discussions and Summary

[Jensen \(1986\)](#) argues that high levels of debt can lead to agency problems between shareholders and debt holders. When manufacturing firms have substantial debt, managers may prioritize the interests of debt holders over shareholders. This focus on debt service can result in reduced investment in growth opportunities, leading to lower financial performance. [Rajan and Zingales \(1995\)](#) highlighted the presence of an information asymmetry between lenders and manufacturing firms. They argue that lenders may lack complete information about the firm's projects and investments. Consequently, lenders may charge a higher interest rate to compensate for this information gap, leading to an increased financial burden and lower financial performance for the firm. [Titman and Wessel \(1988\)](#) emphasized the concept of financial distress costs associated with debt financing. According to their findings, manufacturing companies with significant levels of debt are at higher risk of bankruptcy, leading to costs such as legal fees, damage to reputation, and disruptions in operations. These costs can have a significant impact on the financial performance of the firm. [Huang and Ritter, \(2009\)](#) conducted research on the connection between debt levels and the innovation capacity of manufacturing firms. They discovered that high levels of debt can hinder a firm's ability to invest in research and development, thus limiting its innovative capabilities. This lack of innovation may have long-term consequences for financial performance, as these firms may struggle to adapt to changing market demands. [Barclay and Smith \(1995\)](#) argue that the influence of debt financing on financial performance can vary depending on the economic environment. They propose that during economic downturns, manufacturing firms with high levels of debt are more likely to face financial distress and are advised to maintain lower debt levels. This emphasizes the importance of considering macroeconomic factors when examining the relationship between debt financing and financial performance.

Numerous research studies have delved into examining the relationship between debt financing and financial performance. In line with this, [Iorpev and](#)

[Kwanum \(2012\)](#) conducted a study to investigate how the capital structure affects the performance of manufacturing companies in Nigeria. The research focused on a sample of 15 manufacturing firms listed on the Nigerian Stock Exchange from 2005 to 2009. They used multiple regression analyses to assess performance indicators like return on assets and profit margin. The variables considered were the proportions of short-term debt to total assets, long-term debt to total assets, and the total debt to equity ratio. The results revealed a negative but statistically insignificant association between both short-term and long-term debt and total assets, return on assets, and profit margin. However, the study found that the total debt-to-equity ratio exhibited a positive relationship with return on assets but a negative relationship with profit margin. Consequently, the findings suggested that the capital structure has limited significance in determining firm performance. Based on the research conducted by [Chasha et al. \(2022\)](#), it has been determined that the debt ratio exhibits an insignificantly positive correlation with profitability. This indication suggests that the profitability of an organization tends to increase as the debt ratio rises; however, it is essential to note that the connection between the two variables is weak or statistically insignificant.

In a study conducted by [Hayati and Muchtar \(2022\)](#), the researchers aimed to explore the impact of debt financing and firm performance on manufacturing companies. Their examination involved a sample of 21 manufacturing companies listed on the Indonesia Stock Exchange between 2016 and 2020. The findings revealed that short-term debt did not have a significant impact on return on assets, while long-term debt had a negative effect on return on assets. The researchers utilized purposive sampling and panel data regression for their analysis. Past studies have presented conflicting views on the consequences of debt financing for manufacturing firms, leaving a limited understanding of the positive or negative effects of debentures, trade credit, and loans on the financial performance of manufacturing companies. Additionally, most previous research on debt financing has been centered on various sectors, making this study particularly valuable in providing quantitative evidence on the influence of debt financing specifically on the financial performance of manufacturing firms in Kenya.

#### 5. Conclusion

In today's dynamic corporate finance landscape, the decision to employ debt financing in a company's capital structure remains a complex challenge. This study has explored the intricate relationship between debt financing and the financial performance of manufacturing firms. It has delved into the theoretical underpinnings of debt financing, drawing upon the Pecking Order Theory and the Trade-Off Theory, both of which provide valuable insights into how firms make capital structure decisions and navigate the associated risks and benefits.

The empirical literature reviewed in this study sheds light on the multifaceted impact of different forms of debt financing, including debentures, trade credit, and loans, on the financial performance of manufacturing firms. While there is no one-size-fits-all answer, the findings suggest that the effects of debt financing on financial performance are contingent on various factors, including economic conditions, the level of debt, and the firm's ability to manage its debt obligations. High levels of debt can potentially lead to agency problems between shareholders and debt holders. Managers may prioritize the interests of debt holders over shareholders, potentially leading to reduced investments in growth opportunities and lower financial performance.

Debt financing can be influenced by information asymmetry between lenders and manufacturing firms, which may result in higher interest rates and increased financial burden, negatively impacting financial performance. Firms with substantial debt may face higher risks of bankruptcy, leading to financial distress costs that include legal fees, damage to reputation, and operational disruptions, all of which can adversely affect financial performance. High levels of debt can hinder a firm's ability to invest in research and

development, limiting its innovative capabilities. This lack of innovation can have long-term consequences for financial performance. The influence of debt financing on financial performance can vary depending on the economic environment. During economic downturns, firms with high levels of debt may be more vulnerable to financial distress, highlighting the importance of considering macroeconomic factors in analyzing this relationship.

In conclusion, while debt financing can provide valuable capital for manufacturing firms to fuel growth and expansion, it comes with inherent risks and challenges. The optimal capital structure for each manufacturing firm may vary, depending on its specific circumstances and objectives. Therefore, it is crucial for manufacturing firms to carefully assess their financial positions, consider economic conditions, and weigh the trade-offs between the advantages and disadvantages of debt financing to make informed decisions that enhance their financial performance and long-term sustainability. Further research and analysis are warranted to continue exploring this intricate relationship and its nuances within the manufacturing sector.

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