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The Importance of Agency Costs in Influencing the Relationship between Capital Structure and Firm Performance

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ABSTRACT

This study investigates the relationship between capital structure and financial performance at Cimerwa Plc over the period 2019-2023. The research addresses the gap in understanding how capital structure decisions specifically the mix of debt and equity affect the financial outcomes of manufacturing firms in Rwanda. This issue is particularly significant for Cimerwa Plc, a leading cement manufacturer, which relies on an optimal capital structure for financial stability and sustainable growth. The study aims to analyze Cimerwa's capital structure, assess its financial performance, and examine the nature of the relationship between capital structure and performance. The study is grounded in three theoretical frameworks: The Trade-Off Theory, which highlights the balance between debt-related benefits and financial distress costs; the Pecking Order Theory, which emphasizes a preference for internal financing over external sources; and the Agency Theory, which addresses conflicts of interest between managers and shareholders that may influence capital structure decisions. A quantitative research design was employed, utilizing 40 observations derived from the company's annual reports and insights from expert interviews. Data were analyzed using multiple linear regression to examine the impact of capital structure variables debt ratio, equity ratio, and financial leverage on financial performance indicators, including Return on Assets (ROA), Return on Equity (ROE), and Earnings Per Share (EPS). The findings reveal a significant positive relationship between capital structure and financial performance. The regression model yielded an R-value of 0.791, indicating a strong correlation between the independent variables and Cimerwa's financial outcomes. The R^2 value of 0.625 shows that the model explains 62.5% of the variance in financial performance, while the Adjusted R^2 of 0.603 confirms the robustness of the predictors. The model's F Change statistic (178.171, Sig. = 0.000) further demonstrates the statistical significance of the relationship. Based on these results, the study recommends that Cimerwa Plc adopt a structured financing strategy that maintains an optimal balance between debt and equity, coupled with continuous monitoring of financial performance, strategic debt management, and enhanced liquidity management to support long-term growth and financial stability.

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1. INTRODUCTION

Capital structure, defined as the proportion of debt and equity a company employs to finance its operations, is a central determinant of financial performance in capital-intensive industries such as manufacturing. Debt financing can lower the cost of capital through tax benefits, thereby improving financial indicators such as Return on Assets (ROA) and Return on Equity (ROE). However, excessive reliance on debt raises financial risk and exposes firms to vulnerability during economic downturns (Alaraji et al., 2020). Empirical studies suggest a nonlinear relationship, where moderate leverage

enhances profitability, while excessive borrowing leads to financial distress. Equity financing, though less risky, often results in earnings dilution, further complicating decisions regarding the optimal capital mix (Yegon, 2021). This underscores the importance of aligning capital structure choices with operational efficiency and industry-specific factors to maximize financial sustainability (Musah, 2022).

Global evidence demonstrates the adverse effects of poorly managed capital structures. For example, the Brazilian steel manufacturer Usinas Siderúrgicas de Minas Gerais S.A. (Usiminas) fell into crisis when its heavy borrowing strategy left it vulnerable during Brazil's mid-2010s recession (Souza et al., 2019). Similarly, Germany's A.T.U Auto-Teile-Unger struggled with debt accumulated through leveraged buyouts, ultimately leading to insolvency in 2019 (Meier, 2020). In Asia, India's Alok Industries borrowed excessively to finance expansion but underestimated the importance of liquidity and equity buffers, culminating in bankruptcy proceedings in 2020 (Kumar, 2021). These international cases highlight the global relevance of capital structure management and its role in determining firms' resilience to market shocks.

In Africa, empirical evidence reflects similar dynamics, with variations depending on local conditions. In Nigeria, high debt levels were found to negatively affect manufacturing firms' financial performance due to rising interest obligations and financial risk (Ogunyomi, 2020). Kenyan firms with high reliance on debt financing faced liquidity challenges, particularly during economic downturns, which significantly weakened profitability (Kinyua, 2019). Conversely, research in Ghana indicated that moderate levels of leverage could enhance performance, as debt provided resources for expansion without creating unsustainable obligations (Musah, 2022). These findings confirm that the relationship between capital structure and performance is not linear but highly dependent on context and a firm's ability to manage its debt effectively.

In Rwanda, poor capital structure decisions have also contributed to fluctuating financial outcomes in the manufacturing sector. For instance, cement manufacturers such as Cimerwa Plc have experienced challenges linked to reliance on debt financing for long-term investments. Studies indicate that dependence on short-term borrowing has led to liquidity problems, declining profitability, and financial strain (Nsengiyumva, 2023). Given that Cimerwa Plc is Rwanda's largest cement manufacturer and a key player in the country's industrialization agenda, understanding how its capital structure decisions affect financial performance is critical. The present study, therefore, seeks to explore the relationship between capital structure and financial performance at Cimerwa Plc by examining its debt-to-equity ratio, cost of capital, ROA, and ROE. By identifying the optimal financing mix, the research aims to provide insights that will guide manufacturing firms in Rwanda toward achieving financial sustainability and minimizing risks associated with poor capital structure management.

2. LITERATURE REVIEW

Profitability (Equity Ratio and Degree of Financial Leverage)

Profitability is often linked to the way firms structure their equity and debt mix. The equity ratio provides insights into the portion of assets financed through shareholders' equity, which reflects financial independence and resilience against bankruptcy risks. Firms with higher equity ratios are considered less risky, as they depend less on external creditors and demonstrate stronger investor confidence. Studies suggest that higher equity financing enhances long-term profitability by reducing interest obligations and improving liquidity, though it may dilute earnings if not managed well (Nguyen, 2021). The degree of financial leverage (DFL), on the other hand, measures the sensitivity of earnings to changes in operating income, reflecting the extent of debt reliance in financing decisions. Moderate levels of financial leverage can boost profitability through tax shields and better returns to shareholders, but excessive leverage increases financial distress risks, especially in volatile markets. Evidence from emerging economies demonstrates that firms with balanced leverage ratios tend to maximize shareholder value while avoiding insolvency threats (Ahmed, 2020).

Flexibility (Earnings per Share and Interest Coverage Ratio)

Capital structure flexibility is evaluated using earnings per share (EPS) and the interest coverage ratio (ICR). EPS reflects a firm's profitability available to each share and is directly influenced by the financing mix. High debt levels can magnify EPS when returns on investment exceed borrowing costs, but they also expose firms to earnings volatility in times of financial strain. Researchers emphasize that EPS tends to be more stable in firms with diversified funding strategies and conservative debt policies (Mensah, 2022). The interest coverage ratio, which measures a firm's ability to meet interest obligations from operating income, is a key determinant of financial flexibility and long-term sustainability. A higher ratio indicates that firms can comfortably

service debt without compromising reinvestment or dividend policies. In contrast, low ICR values suggest vulnerability to default, particularly in industries with cyclical revenues such as manufacturing. Recent evidence highlights that firms maintaining adequate interest coverage not only reduce bankruptcy risks but also secure investor confidence for future financing (Kusi, 2021).

Conservatism (Debt Ratio and Cash Flow Adequacy Ratio)

Financial conservatism in capital structure is reflected through measures such as the debt ratio and cash flow adequacy ratio. The debt ratio indicates the proportion of total assets financed through debt, with higher values signaling greater financial risk. Manufacturing firms often rely on debt for capital expansion, but studies warn that excessive borrowing constrains financial flexibility and reduces profitability margins (Mwangi, 2020). The cash flow adequacy ratio, which measures whether internal cash flows are sufficient to cover obligations such as dividends, interest, and debt repayment, is a critical measure of financial prudence. Empirical studies suggest that firms with strong operating cash flows manage to sustain long-term debt repayments without relying excessively on external financing. Conservative financing strategies based on maintaining adequate cash flow buffers improve resilience against market shocks and enable firms to withstand liquidity crises (Okoro, 2019).

Financial Performance

Operating Ratios (Net Profit Margin, Return on Assets, and Return on Equity)

Operating ratios such as net profit margin (NPM), return on assets (ROA), and return on equity (ROE) are central to financial performance evaluation. The NPM shows the efficiency with which firms convert revenues into profits, often influenced by cost control and capital structure. A higher NPM reflects effective operational management and financial decision-making (Ali, 2021). ROA indicates the effectiveness of asset utilization in generating earnings, with empirical findings showing that firms with balanced debt-equity structures achieve higher ROA due to optimal resource allocation. Similarly, ROE measures returns to shareholders, with studies indicating that financial leverage can amplify ROE in capital-intensive industries, but only when debt levels remain sustainable (Mensah, 2020). Collectively, these ratios provide a comprehensive view of profitability and efficiency, serving as key benchmarks for investor evaluation and strategic decision-making.

Liquidity (Current Ratio and Quick Ratio)

Liquidity performance is commonly assessed through the current ratio and quick ratio, which reflect a firm's ability to meet short-term obligations. The current ratio measures the adequacy of current assets over current liabilities, with higher ratios suggesting better liquidity but excessively high values potentially indicating inefficient resource use. On the other hand, the quick ratio excludes inventory, offering a stricter assessment of liquidity by focusing on highly liquid assets. Research demonstrates that manufacturing firms with balanced liquidity ratios perform better in sustaining operations and securing creditworthiness (Osei, 2019). However, excessively low liquidity exposes firms to default risks, while excessively high liquidity may signal underutilized resources. Recent evidence suggests that maintaining optimal liquidity enhances both solvency and long-term profitability, particularly in competitive and capital-intensive industries (Boateng, 2021).

Efficiency (Inventory Turnover and Accounts Receivable Turnover)

Efficiency ratios such as inventory turnover and accounts receivable turnover assess operational effectiveness in managing assets. Inventory turnover reflects how quickly a firm sells and replaces stock, with higher ratios indicating effective inventory management and reduced holding costs. Lower turnover rates, however, may indicate overstocking or weak demand. Empirical research shows that firms optimizing inventory turnover experience improved cash flows and profitability margins (Yeboah, 2020). Accounts receivable turnover, on the other hand, measures how effectively firms collect credit sales. Higher turnover rates reflect efficient credit policies and strong cash inflows, while low rates suggest weak debt collection practices that can impair liquidity. Manufacturing firms with strong receivables management have been found to sustain higher financial performance, as they reduce capital tied up in outstanding debts and improve working capital efficiency (Kwame, 2022).

3. METHODOLOGY

Research Design

The study adopted a quantitative research design to assess the relationship between capital structure and financial performance in Cimerwa Plc, a Rwandan manufacturing company. Quantitative design was considered appropriate as it enabled the use of measurable financial indicators to draw objective conclusions. Secondary financial data covering the period 2019–2023 was collected from company records, specifically income statements, balance sheets, and cash flow statements. The study focused on eight indicators: five representing capital structure (Equity Ratio, Degree of Financial Leverage, Earnings per Share, Interest Coverage Ratio, and

Debt Ratio) and three representing financial performance (Net Profit Margin, Return on Assets, and Current Ratio). In total, 40 observations (5 years × 8 indicators) were included in the analysis.

Population and Sampling Technique

The study population consisted of Cimerwa Plc, chosen because it is one of Rwanda's leading manufacturing firms and directly relevant to the research objectives. The study applied a purposive sampling technique, focusing on Cimerwa specifically to understand capital structure decisions in the Rwandan manufacturing sector. This non-probability approach was justified because the research required data from a single case with unique characteristics, making random sampling unsuitable.

Data Collection Methods

Data collection relied primarily on document review of audited financial statements, ensuring reliability and credibility of information. This was supplemented by semi-structured interviews with key finance officers (DAF and Chief Accountant) to validate and enrich the quantitative data. This triangulation of sources increased the validity of the findings by combining statistical evidence with expert opinion.

Data Analysis Techniques

The collected data was analyzed using SPSS and Microsoft Excel. Descriptive statistics, including mean and standard deviation, were used to summarize the data. To assess the effect of capital structure on financial performance, multiple linear regression analysis was conducted. This method was appropriate as it allowed simultaneous evaluation of the impact of multiple independent variables (capital structure indicators) on dependent variables (financial performance measures). Regression outputs were interpreted using coefficients, R-squared values, and significance levels to determine the strength and direction of relationships.

X = Capital structure
Y = Financial performance
Y = f(x)

Where,
X = ($X1_=$ Return on Equity (ROE), $X_{2=}$ Degree of Financial Leverage (DFL), X_3: Earning Per Share (EPS), X_4: Interest coverage ratio (ICR), X_5: Debt Ratio (DR), and $X_{6=}$ Cash flow adequacy ratio (CFAR) while the Y= Financial Performance (FP)

Where β0 is the intercept for each model and β_1, β_2, β_3, β_4, β_5 and β_6 are coefficients of explanatory variables, using primary data and e= error term. The pre-estimation tests was carried out in determining the suitability of each of the model.

Therefore, the model used in the study took the form below :

$Y = \beta_0+\beta_1$ ROE $+\beta_2$ DFL $+\beta_3$ EPS$+\beta_4$ ICR$+ \beta_5$ DR$+ \beta_6$ CFAR$+$ e

4. RESULTS AND DISCUSSIONS OF FINDINGS

A study was conducted using multiple linear regression analysis to determine how the independent variables an assessment worker The investigator utilized multiple linear regressions with a 95% confidence interval to determine the correlation between the independent and dependent variables. According to the summary of the model, the coefficient of determination (R squared) functions as a comprehensive indicator of the intensity of the connection between the independent and dependent variables.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.791[a]	.625	.603	.60606	.465	178.171	6	33	.000

a. Predictors: (Constant), return on equity, degree of financial leverage, earnings per share, interest coverage ratio, debt ratio, cash flow adequacy ratio.

Table 1 presents the regression model summary for the relationship between capital structure indicators and the financial performance of CIMERWA PLC. The results reveal an R value of 0.791, which indicates a strong positive correlation between the independent variables (return on equity, degree of financial leverage, earnings per share, interest coverage ratio, debt ratio, and cash flow adequacy ratio) and financial performance. This aligns with the findings of Abor (2019), who reported that profitability and leverage are strongly associated with firm performance in African manufacturing firms. Similarly, Kusi (2020) found that capital structure decisions, particularly financial leverage and equity ratio, significantly affect financial performance in listed companies, reinforcing the strength of the relationship observed in this study.

The R Square value of 0.625 suggests that the selected predictors explain 62.5% of the variance in CIMERWA's financial performance. This explanatory power is consistent with the findings of Boateng (2021), who reported

that over 60% of variations in firm performance could be attributed to capital structure indicators in the Ghanaian cement industry. Likewise, Kipesha (2022) found a strong predictive relationship between earnings per share, debt ratio, and the financial outcomes of East African firms, suggesting that the model in this study provides a robust fit for the data.

The Adjusted R Square value of 0.603 further confirms the validity of the model, even when accounting for the number of predictors. This is in line with the results of Ngugi (2021), who highlighted that adjusting for multiple predictors does not significantly weaken the explanatory power of regression models examining firm performance. Additionally, the Standard Error of the Estimate of 0.60606 demonstrates a relatively low margin of error, suggesting that the model is reliable. This supports earlier evidence by Musah (2020), who emphasized that a lower standard error reflects higher predictive accuracy in financial modeling.

The F Change value of 178.171 and the Sig. F Change of 0.000 indicate that the regression model is statistically significant, meaning the predictors jointly influence CIMERWA's performance. This resonates with the findings of Akoto (2020), who reported that leverage and profitability ratios significantly predict firm performance in African firms. Similarly, Nyamongo (2019) demonstrated that interest coverage ratio and liquidity measures are significant predictors of financial stability in East African corporations. Therefore, these results underscore that capital structure variables not only explain a substantial proportion of performance variation but also provide strong statistical evidence of their importance in driving firm outcomes.

Table 2: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4215.512	6	702.585	17.270	.000[a]
	Residual	1342.487	33	40.681		
	Total	5557.999	39			

a. Predictors: (Constant), return on equity, degree of financial leverage, earnings per share, interest coverage ratio, debt ratio, cash flow adequacy ratio
b. Dependent Variable: Financial performance of CIMERWA Plc

Table 2 presents the ANOVA results for the regression model assessing the relationship between capital structure variables and CIMERWA PLC's financial performance. The Regression Sum of Squares of 4215.512 indicates that 75.8% of the total variation in financial performance is explained by the independent variables, while the Residual Sum of Squares of 1342.487 accounts for 24.2% of unexplained variation. This high explanatory power reflects a strong model fit, consistent with prior studies by Boateng (2021), who reported that capital structure indicators explained over 70% of performance variation in Ghanaian cement companies, and Abor (2019), who found similar explanatory levels in African manufacturing firms.

The Mean Square values, with 702.585 for regression and 40.681 for residuals, emphasize that the variance explained by the predictors is considerably larger than the unexplained variance. This result aligns with Kusi (2020), who noted that higher mean square ratios in regression models indicate significant contributions of financial indicators, such as return on equity and leverage, to firm performance. These findings reinforce the idea that carefully managed capital structure variables play a crucial role in enhancing profitability and overall financial outcomes.

The F-statistic of 17.270 further confirms that the regression model is significant, showing a strong ratio of explained to unexplained variance. A Sig. value of 0.000 indicates that the likelihood of the observed relationship occurring by chance is extremely low, under 0.1%. This supports the conclusions of Nyamongo (2019), who observed that F-values with similar significance levels in East African manufacturing firms reliably indicate that financial leverage, liquidity, and profitability measures jointly influence firm performance.

Overall, the ANOVA results suggest that CIMERWA PLC's capital structure indicators collectively have a substantial and statistically significant impact on its financial performance. These results are consistent with empirical evidence from both African and global studies, highlighting the importance of integrating equity, debt, and liquidity management strategies to optimize financial outcomes (Musah, 2020; Kipesha, 2022). The strong statistical significance also reinforces the reliability of using regression analysis to understand the relationship between capital structure and performance in manufacturing firms.

Table 3: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.321	1.531	0.05	2.683	.078
	Equity ratio	.657	.245	0.046	2.051	.032
	Degree of financial leverage	.521	.254	0.155	1.767	.043
	Earnings per share	.568	.3215	0.225	0.969	.032
	Interest coverage ratio	.631	.651	0.482	2.14	.046
	Debt ratio	.734	.343	0.430	1.838	.005
	Cash flow adequacy ratio	.598	.3256	0.050	2.683	009

a. Dependent Variable: Financial performance of CIMERWA Plc

Table 3 presents the regression coefficients for the model assessing the relationship between financial performance indicators and CIMERWA Plc's financial performance. The unstandardized coefficients (B) show that Return on Equity (0.657) and Debt Ratio (0.734) have substantial positive effects on the company's performance. This aligns with Abor (2019), who found that both profitability measures and leverage significantly influence manufacturing firms' performance in Africa. Similarly, Kipesha (2022) observed that debt ratios positively affected firm performance in East African manufacturing companies, demonstrating that controlled leverage can enhance returns when efficiently managed.

The standardized coefficients (Beta) indicate the relative strength of predictors, with the Interest Coverage Ratio (0.482) having the strongest effect, followed by the Debt Ratio (0.430). This supports findings by Mugisha (2021), who reported that liquidity and interest coverage ratios are critical determinants of firm performance in Ugandan manufacturing firms. Adequate interest coverage ensures that firms can meet interest obligations without affecting operational efficiency, which in turn enhances overall financial performance.

The t-statistics and Sig. values confirm the statistical significance of all predictors, with Sig. values below 0.05 for Return on Equity, Degree of Financial Leverage, Earnings per Share, Interest Coverage Ratio, Debt Ratio, and Cash Flow Adequacy Ratio. These results corroborate the conclusions of Nyamongo (2019) and Boateng (2021), who emphasized that multiple financial performance indicators collectively influence firm outcomes. The significance of Debt Ratio and Interest Coverage Ratio particularly highlights the importance of balancing leverage and liquidity to optimize financial results.

Overall, the coefficient analysis demonstrates that both capital structure and profitability measures are crucial for predicting CIMERWA Plc's financial performance. The findings are consistent with empirical evidence from African manufacturing firms, indicating that targeted management of equity, debt, and liquidity can meaningfully enhance performance metrics such as ROE, net profit margin, and overall financial sustainability (Musah, 2020; Kusi, 2020).

Hypotheses testing

This study tests the hypothesis regarding the relationship between the capital structure and financial performance of CIMERWA Plc. The null hypothesis (H0) posits that there is no significant relationship between capital structure and financial performance, while the alternative hypothesis (H1) suggests that there is a significant relationship. The analysis reveals that several variables, including Debt Ratio (t = 1.838, Sig. = 0.005) and Degree of Financial Leverage (t = 1.767, Sig. = 0.043), have a significant impact on the company's financial performance. Since these factors have significance values lower than the 0.05 threshold, the null hypothesis (H0) is rejected, and the alternative hypothesis (H1) is accepted. This confirms that there is a significant relationship between CIMERWA's capital structure and its financial performance.

Additionally, the study assessed the performance of CIMERWA Plc from 2019 to 2023, using various financial metrics such as Earnings per Share, Interest Coverage Ratio, and Cash Flow Adequacy Ratio. The results showed significant positive correlations, especially with Return on Equity (t = 2.051, Sig. = 0.032), Earnings per Share (t = 0.969, Sig. = 0.032), and other key financial ratios. These findings indicate that CIMERWA's financial performance improved over the analyzed period, supporting the alternative hypothesis that financial performance is significantly influenced by the company's financial strategies and ratios.

In conclusion, based on the statistical analysis, it is clear that CIMERWA's capital structure decisions, such as its Debt Ratio and Degree of Financial Leverage, play a critical role in determining its financial performance. Therefore, the hypothesis

testing supports the notion that there is a significant relationship between capital structure and financial performance at CIMERWA Plc. The study's findings contribute to a better understanding of how capital structure management can enhance financial outcomes in the context of the company.

Discussion

The results of the study, based on the analysis from Section 4.1 onwards, offer valuable insights into the financial performance of CIMERWA Plc from 2019 to 2023, focusing on various financial variables and ratios.

Capital Structure and Financial Performance (Section 4.1 to 4.5): The analysis of capital structure revealed significant changes in the Debt Ratio and the Interest Coverage Ratio. From Table 4.4, it was observed that CIMERWA Plc's Debt Ratio fluctuated over the years, with a significant drop in 2023 to 0.29 from 0.49 in 2019. This indicates a reduction in the company's reliance on debt financing over the period, suggesting that it has become more conservative in managing debt. The Interest Coverage Ratio (ICR) also showed substantial improvement, increasing from 1.80 in 2019 to 8.80 in 2023 (Table 4.3). This improvement implies that CIMERWA's ability to cover interest expenses has strengthened, indicating a more secure financial position. These findings point towards a more prudent financial strategy that aims at reducing debt and increasing financial flexibility, contributing to overall improved financial health.

The reduction in the Debt Ratio observed in CIMERWA Plc, dropping from 0.49 in 2019 to 0.29 in 2023 (Table 4.4), is consistent with studies by Myers (2001) and Modigliani and Miller (1958), who argued that firms often optimize their capital structure by reducing reliance on debt, which in turn lowers financial risk and improves performance. The observed improvement in the Interest Coverage Ratio, from 1.80 in 2019 to 8.80 in 2023 (Table 4.3), aligns with the findings of Margarita and Koutsou (2018), who noted that companies that effectively manage their debt tend to show improved financial health and profitability. This reduction in debt, combined with an improved ability to meet interest payments, supports the theory of pecking order theory (Myers & Majluf, 1984), where firms prefer internal financing or less risky debt options, thereby ensuring financial flexibility.

Operating Ratios and Performance Indicators: The Net Profit Margin (NPM) improvement from 5.55% in 2019 to 15.15% in 2023 (Table 4.6) corroborates the findings by Cheng et al. (2017) and Zhao and Wang (2018), who highlighted that companies with effective cost control and revenue generation strategies tend to show improved profit margins. The Return on Assets (ROA), which rose from 3.14% in 2019 to 13.89% in 2023 (Table 4.7), aligns with previous studies such as Narteh and Amoh (2020), who found that efficient use of assets leads to higher returns, reflecting a positive correlation between asset utilization and profitability. CIMERWA's ability to improve profitability while managing assets effectively further supports the notion of efficient resource allocation, as found in similar studies.

CIMERWA's Current Ratio and Quick Ratio, which indicate a strong liquidity position, with values above 1 in all years (Tables 4.8 and 4.9), are in line with studies by Goyal and Joshi (2012) and Chia (2014), who found that firms maintaining adequate liquidity are less likely to face financial distress. However, the fluctuation observed in the Receivables Turnover Ratio, particularly the decline to 0.57 in 2023 (Table 4.11), is a point of concern. This trend is similar to findings by Akinlo and Oni (2020), who observed that some companies face challenges in efficiently managing receivables during periods of rapid growth or financial strain. Such inefficiencies could imply a need for improved credit management policies to sustain liquidity. On the other hand, the stable Inventory Turnover Ratio suggests that CIMERWA has successfully managed its inventory, which is consistent with findings by Raheman et al. (2010), who concluded that firms that maintain efficient inventory systems often experience better operational performance.

The regression model results, showing that variables like Return on Equity, Degree of Financial Leverage, and Earnings per Share significantly impact financial performance (Table 4.14), are consistent with Hossain and Leo (2015), who found that financial leverage and profitability ratios are critical determinants of a company's performance. Moreover, the significance of Cash Flow Adequacy Ratio as a predictor of financial performance (with a p-value of 0.009) resonates with studies by Almajali et al. (2012), who noted the importance of liquidity management in enhancing profitability. The positive relationship between capital structure and financial performance in CIMERWA also supports the findings of Kraus and Litzenberger (1973), who emphasized the importance of finding an optimal balance between debt and equity for enhanced profitability and stability.

5. CONCLUSION AND RECOMMENDATIONS

Conclusion

This research aimed to examine the relationship between capital structure and financial performance

of Cimerwa Plc. Specifically, it focused on analyzing the company's capital structure, assessing its financial performance during the period of 2019-2023, and investigating the correlation between these two financial aspects. The study utilized various financial indicators such as the debt ratio, interest coverage ratio, net profit margin, return on assets, and liquidity ratios to evaluate Cimerwa's financial position and performance.

The findings revealed that Cimerwa Plc strategically adjusted its capital structure over the years, reducing its debt ratio while improving its financial leverage and interest coverage ratio. Simultaneously, the company demonstrated strong financial performance, with notable improvements in profitability and liquidity. Regression analysis confirmed a significant relationship between capital structure and financial performance, indicating that effective capital structure management positively influences profitability and financial stability.

In conclusion, the study underscores the importance of maintaining an optimal balance between debt and equity to enhance financial performance. Cimerwa Plc's approach of reducing debt dependency while strengthening profitability aligns with financial management theories advocating for prudent capital structure strategies. These findings provide valuable insights for corporate financial managers, policymakers, and stakeholders in making informed decisions to optimize financial performance in capital-intensive industries like cement manufacturing.

Recommendations

Based on the weaker means identified in the study, several recommendations can be proposed to enhance project resource management and improve project performance at the Rubagabaga hydropower plant and similar construction projects:

Inadequate Risk Management: The moderate satisfaction levels reported, particularly regarding the effectiveness of mitigation plans, indicate room for improvement in risk identification and mitigation strategies. To address this weakness, project managers should prioritize comprehensive risk assessments to identify potential threats and vulnerabilities. They should then develop proactive mitigation strategies and contingency plans to address identified risks effectively. Actionable steps include conducting regular risk assessments, involving relevant stakeholders in risk identification processes, and allocating resources for risk mitigation measures.

Limited Financial Resource Management: While overall satisfaction with financial resource management was relatively high, it is suggested some variability in perceptions, indicating potential inconsistencies or inefficiencies in budget allocation and financial monitoring. To improve financial resource management, project managers should implement robust financial tracking systems to monitor project expenditures and ensure adherence to budgetary constraints. They should conduct regular audits to identify discrepancies and take corrective actions promptly. Additionally, fostering transparency and accountability in financial decision-making processes through clear communication channels and stakeholder engagement can enhance financial resource management practices.

Suboptimal Technology and Equipment Management: Despite the relatively high mean score for technology and equipment management, suggests some level of inconsistency in perceptions. To address this weakness, project managers should explore opportunities to integrate advanced technologies, such as construction management software and Internet of Things (IoT) devices, to streamline project workflows and improve efficiency. Providing training to personnel to enhance their technological proficiency is essential. Additionally, regular maintenance schedules and investment in upgrading outdated equipment can contribute to more effective technology and equipment management practices.

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