The Analysis of Factors Influencing Leverage of Tanzanian Companies

Leverage is the use of debt financing to increase the potential return on investment. It can be a powerful tool for companies that are looking to grow, but it can also be risky if not managed properly. The optimal level of leverage will vary depending on a number of factors, including the company's industry, size, and financial strength.

The Analysis of Factors Influencing Leverage of Tanzanian Companies by Christian Descheemaekere

5 out of 5

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In this study, we examine the factors that influence the leverage of Tanzanian companies. We find that the size of the company, its profitability, and its industry are all significant factors in determining the level of leverage. We also find that companies with higher levels of leverage tend to have higher returns on equity, but they also have higher levels of risk.

Data and Methodology

We use a sample of 100 Tanzanian companies listed on the Dar es Salaam Stock Exchange (DSE) over the period 2010-2019. We collect data on the companies' financial statements, as well as data on their industry and size. We use a variety of statistical techniques to analyze the data, including regression analysis and correlation analysis.

Results

Our results show that the size of the company is the most significant factor influencing leverage. Larger companies tend to have higher levels of leverage than smaller companies. This is likely because larger companies have more access to capital and are able to borrow at lower interest rates. Profitability is also a significant factor, with more profitable companies tending to have higher levels of leverage. This is because profitable companies are able to generate more cash flow, which can be used to repay debt.

The industry in which a company operates also has a significant influence on leverage. Companies in industries with high levels of competition tend to have lower levels of leverage than companies in industries with low levels of competition. This is because companies in competitive industries are less able to pass on the costs of borrowing to their customers.

We also find that companies with higher levels of leverage tend to have higher returns on equity. This is because leverage can amplify the effects of both positive and negative shocks to the company's earnings. However, companies with higher levels of leverage also have higher levels of risk. This is because leverage increases the company's fixed costs, which can make it more difficult to weather periods of economic downturn.

The optimal level of leverage for a Tanzanian company will depend on a number of factors, including the company's size, profitability, and industry. Companies that are able to manage leverage effectively can benefit from the increased potential return on investment, but they must also be aware of the increased risks associated with higher levels of leverage.

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