"CORPOARTE DEBT POLICY AND OPTIMAL LEVERAGE; A ZIMBABWEAN PERSPECTIVE".

PREPARED BY

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This is a comprehensive research project focusing on the Zimbabwean perspective of optimal leverage determination. Inherent limitations of corporate finance theory in fully capturing the impact of the macro-economic environment and specific firm characteristics generally invalidates the applicability of prescribed optimal capital structure models in the Zimbabwean setting. Therefore, in trying to address these inherent shortfalls, a quantitative approach has been adopted through the study of fifteen listed manufacturing companies. Contrary to the traditional view, this project endeavors to identify an optimal leverage structure reflective of local economic conditions. The prevailing economic environment and specific firm characteristics do have implications on capital structure that financial managers should be aware of.

The study found that success in optimal leverage determination could only be achieved through a continuos reassessment and adjustment of the organisation's debt and equity holdings. The re-adjustment process enables financial managers to limit the organisation's exposure to changes in economy wide perils while at the same time maintaining benefits derived from debt financing. Interest tax shield benefits should be balanced with potential financial distress costs.

The study is organised as follows: **Chapter 1** provides a brief background of the Zimbabwean economic environment and defines the optimal leverage term. **Chapter 2** reviews relevant established corporate finance theory, its shortfalls and applicability in the Zimbabwean setting. **Chapter 3** introduces the constraints that are put forward by the Zimbabwean economic environment and the implications they have on shaping capital structure financing choices. In this chapter, Government policy is scrutinised extensively. **Chapter 4** provides results of the regression analysis carried out on the surveyed listed manufacturing companies. The analysis is undertaken over a four-year period. **Chapter 5** illustrates how specific firm characteristics influence optimal capital structure financing decisions. **Chapter 6** summarises the findings and makes recommendations. **Chapter 7** concludes the research.