

## **Determinants of Ethiopian Green Coffee Estate Share Companies Profitability: Considering the Financial Aspects**

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### **Abstract**

*The aim of the study was to analyze the determinants of Ethiopian Green Coffee Estate Share Company's profitability considering the biggest Green Coffee Estate Share Company in Tepi. The study adopted financial ratio analysis to assess the financial performance of the company. This study adopted a quantitative method to examine the relationship between the financial performance indicators and the actual performance which was measured by return on assets (ROA) and return on equity (ROE). The study used correlation and multiple linear regression analysis over a period of nine years. Leverage has a positive and insignificant effect on financial performance measured by return on asset and return on equity which leads to an increase in the asset's utilization potentials of the company and liquidity and company size were negatively correlated with firm performance, indicating that a higher value of liquidity invariably influences a firm's financial position. The company is advised to analyze the financial health of the company by performing a ratio analysis. A ratio analysis covers profitability, leverage, and liquidity ratios. Each category addresses different aspects of the financial structure of a company which together account for its overall financial health. Greater attention should be paid to leverage, liquidity, growth opportunity, and size of the company.*

**Key Words:** Leverage; liquidity; growth opportunity; company size; financial ratio analysis

### **Introduction**

Coffee is one of the most important commodities in the world economy, next to oils. The production of this commodity varies across regions. Coffee particularly is the backbone of the Ethiopia economy. Thus, a very significant part of the population derives its livelihood from coffee (Pendergrast, M., 2010). Coffee thus has a significant effect on the socio-economy life of the people and economic development of the country. Teppi-Green Coffee Estate Share Company (TGCEC) was formed between green coffee agro-industry plc and the Privatization and Public Enterprise Supervising Agency in November 2011 for the purpose of development of the plantation and boost production and export earning under the joint venture scheme. In emerging economies like Ethiopia, the sector of coffee is charged with the responsibility of ensuring that it is driving the country's overall economic progress. One of the policies changes that developing nations have made to improve the performance of the agricultural sector is the liberalization of the coffee market (UNDP Report, 2006).

The effects of market liberalization are, however, uneven and linked to issues with price risk and instability. Additionally, due to lackluster market infrastructure and high transaction costs, the private sector's involvement in marketing operations has typically been restricted (MoFED, 2009). Ethiopia, the largest consumer of coffee on the continent, has witnessed steady growth in coffee consumption over the years. According to reports from the USDA, in MY 2021/22, Ethiopians guzzled 3.45 million 60-kg bags (207K mt) of coffee, a figure set to rise to 3.5 million bags (210K mt) in MY 2022/23. Other industry estimates place the

country's consumption for this year at 3.78 million bags, making the East African country the 10th largest consumer of coffee in the world.

This study was proposed because it was deemed a critical measure of the productivity and effectiveness of an organization and it was an indicator of the ability of an organization in exploiting its resources to generate wealth, profits, and returns for stakeholders. The study was aimed at examining what factors can determine the financial performance of Teppi Green Coffee Estate Share Company which has divided into four major farms to increase their competitiveness TGCEC (2020). At the same time, performance evaluation was carried out through financial measures. This was evaluated by Return on Assets (ROA) and Return on Equity (ROE) was chosen as performance indicators, while leverage, liquidity, growth in assets and company size were used as explanatory variables. Osemen (2015) studied the financial performance of listed food and beverage companies and found that intangible assets and leverage negatively impact return on assets. While the liquidity ratio reveals a positive significant impact on return on assets at 5% significant level respectively. This was supported by (Audax, 2018). Also, some studies have been conducted related to factor affecting the financial performance of the small-scale coffee farm in Ethiopia, but not much research has been covered on the factor affecting the financial performance of coffee farm sector. Therefore, this study searches to bridge the gap by undertaking on the same.

At the moment, Teppi-Green Coffee Estate Share Company manages nearly 8,986 hectares of farm land of which 72% is located in the Gambela People Nations and Nationalities Region of Majang zone Godere Woreda and the remaining 28% in Southern people nation and nationalities region (SPNNR) in Sheka zone Yeki Woreda. The current land use plan shows that from the total 8,986 hectares of land 6,440 hectares has been covered by coffee trees, 335.4 hectares by forest, 336.4 hectares in farm roads, 670.9 hectares by infrastructure, 100 hectares under oil palm, 45.6 hectares of fruits 614.2 hectares gorges and 387 hectares of land which was used for the purpose of efficient resources utilization and better farm management. Teppi Green coffee estate Share Company was organized into 24 farm units with its own organized technical staff and good working system net worked to coordination offices (TGCEC, 2020).

It was therefore essential to identify what were these factors and how they help coffee plantation companies to take actions that would increase their profitability and that help investors to forecast the profitability of coffee plantation companies existing in Ethiopia. The second problem area was coffee plantations might require assets such as land, buildings, equipment, and a means for acquiring working capital in order to conduct its operations. The capital necessary for investments in these assets was acquired through equity and debt. Taking on debt means borrowing money for the business, whereas equity was the investment of owners. The third problem area involves that coffee plantations often use external funding both to cover production costs and to finance investments (machinery, equipment, buildings) to enhance the farm's economic performance. (TGCEC, 2020)

The debt was necessary to maintain or improve coffee plantation productivity and competitiveness by adopting technological innovation needed to increase its efficiency. At the same time, leverage may affect farm efficiency by influencing coffee production decisions constrained by lower plantation expenditure capacity. In this case, the owner's response might rely on reducing the necessary expenditures to maintain the production assets with negative consequences on plantation productivity, growth, and efficiency. Finally, owner's leverage might affect the plantation's capacity to react to market shocks by adopting

the needed strategic adjustments to maintain productivity, efficiency and competitiveness. In light of all these points, it seemed that there was a gap in which the initial findings about factors affecting the financial performance of the coffee plantation might be of some value (TGCEC, 2020).

## **Literature Review and Hypothesis Development**

### **Leverage and Financial Performance**

Extensive empirical studies have been conducted to establish the relationship between corporate performance and borrowings. Many studies depend on the nature of the company, the nature of the leverage used, the basis of performance measurement, the economic differences between countries, and the methodology used. Results will depend on a number of factors that affect a company's leverage and performance. For example, it is clear that the capital structure literature demonstrates a substantial correlation between leverage and the firm's overall value (Ibhagui and Olokoyo, 2019; Vo, 2019). A great deal of the empirical study has concentrated on determining if leverage has a noticeable effect on business performance. Previous research demonstrates the ambiguous nature of the relationship between leverage and business performance, with some studies finding a negative relationship (Graham et al., 2015) and others establishing either a positive relationship or no relationship at all (Gill et al., 2011; Azeez, 2015). Leverage is lower than leveraged companies as companies tend to issue more than leveraged stocks when their stock price rises. Similar results were most recently published by Aziidah (2017) i.e., there is a strong negative relationship between profitability and leverage because firms that rely more on leverage have lower returns and those that rely more on equity have higher returns. Therefore, the hypothesis concerning leverage is:

**H1.** Leverage has a significant negative relationship with the financial performance of Tepi-green coffee estate Share Company.

### **Liquidity and Financial Performance**

Liquidity management is an important area of organizational activity. An organization's expenses and liabilities provide direct information about its profitability. Liquidity can be defined as an asset that can be converted into payments to an organization if necessary. A liquidity management approach was adopted by organizations for fixed asset planning by Waleed, Pasha, & Akhtar (2016). Daniel (2017) analyzed the impact of financial risk on the financial performance of Ethiopian insurance companies. Panel survey and unstructured in-depth interview were used and the dependent variable for performance was return on assets (ROA). The regression analysis found that credit risk, liquidity risk, and solvency risk have negative and significant effects on the profitability of Ethiopian insurance companies. Rehman et al. (2015) estimated the liquidity to profitability ratio among 99 companies listed on Tadavul. The overall results showed that there is only one significant positive relationship between the return on assets and the current liquidity ratio of Saudi Arabian companies. Studies of the relationship between liquidity and profitability also show that liquidity ratio has a significant positive relationship with asset return (Bolek, 2013).

In each model, the ratio of the asset structure was significant, indicating that the higher the ratio, the higher the return, indicating a conservative approach to working capital. Muriithi et al. (2016) found that credit risk and liquidity risk have a significant negative effect on the return on equity (ROE). Raheman and Nasr (2006) also discussed working capital

management and its effects on liquidity and corporate profitability. They found a significant negative relationship between liquidity and profitability. The study established that the current ratio positively affects the financial performance of non-financial companies listed at the NSE, thus the study concludes that liquidity positively affects the financial performance of non-financial companies (Anwuli, 2022). There is a negative association between liquidity and debt ratios and organizations that have high liquidity prefer equity financing (Liargovas, P., & Skandalis, K. (2018). Therefore, the following hypothesis was developed:

**H2.** Liquidity has significant negative relationship with the financial performance of Tepi-green coffee estate Share Company.

### **Firm Size and Financial Performance**

Studies of the effect of firm size on financial performance have shown varying results, ranging from supporting too against a positive relationship between these variables. Maya and Josipa (2012) studied the effect of firm size on financial results from 2002 to 2010 and found that firm size had a significant (mildly) effect on firm profitability. Dogan (2013) also investigated the effect of firm size on profitability. The analysis results indicate that there is a positive relationship between a company's performance and profitability. Abondo (2013) studied the effect of firm size on the financial performance of depository MFBs from 2008 to 2012 and found that the factors used as independent variables were the factors affecting the profitability of Kenyan commercial banks. Mehrjardi (2012) also investigated the impact of bank size and profitability in Kenya and profitability was measured using the rate of return on assets, and only scale was used as an independent variable. The result shows that there is a high positive correlation between bank size and bank profitability, so there is a positive correlation that varies with the customer base, number of branches, deposit liabilities, and market share. Hasanuddin, et al. (2021) stated that firm size affects earnings quality. Similarly, Olawale et al. (2017) also investigated the effect of firm size on the performance of Nigerian firms using a panel data set of 12 non-financial firms operating in Nigeria between the year 2005-2013 and panel data using a fixed-effects model, a pooling regression model, and a random effect model found that company size had a negative effect on performance in terms of total assets, whereas company size had a positive effect on performance in terms of total trading company size.

Diana et al. (2019) noted that there is a positive relationship between firm size and debt according to trade-off theory. This is because larger companies are more diversified and have smaller income variances, allowing higher debt ratios to be tolerated. Likewise, Mukhindi and Ngaba (2018) well explained that the correlation between firm size and financial performance is related to agency theory. They say that company managers usually make decisions that are inconsistent with their goals and goals. An increase in company size usually means the growth of an ambitious empire. Therefore, the hypothesis concerning leverage is:

**H3.** Firm size has significant negative relationship with the financial performance of Tepi-green coffee estate Share Company.

### **Growth Opportunity and Financial Performance**

Meseret and Getahun (2017) investigated the factors determining the financial performance of a flour mill in the city of Hawassa in southern Ethiopia. For the study, panel data from eight flour manufacturers from 2008 to 2012 were used. Multiple regression analysis showed that growth had little effect on a company's financial performance as measured by ROA and

ROE. Batchimeg (2017) conducted a study to examine the determinants of financial performance of companies listed on the Mongolian Stock Exchange from 2012 to 2015 and the survey regression results show that asset growth is not a significant determinant of a company's financial performance, as measured by return on assets (ROA), return on equity (ROE), and return on sales (ROS). Kaya (2015) investigated the company-specific factors affecting the profitability of non-life insurance companies in Turkey. For the study, panel data of 24 insurance companies, excluding life insurance, were taken from 2006 to 2013. The study has shown that premium growth rates have a significant positive impact on a company's profitability.

Macheki, et al. (2013) evaluated the relationship between various criteria for asset growth and future profitability during 2007-2011. This study evaluated the relationship between asset growth and future returns using the Fama and Macbes models. Regression analysis showed a negative relationship between asset growth and future stock returns. Sanghoon (2014) conducted an empirical study of the relationship between growth and profitability using panel data of companies covering various industries in Korea. They found that a company's past profitability has a negative impact on its current growth, while past growth has a positive effect on its future profitability. An important finding of this study is that the institutional environment of a country can indirectly affect the growth and profitability of a company. Because the assets of high-growth companies are intangible, they run the risk of losing value in case of financial hardship (Diana et al., 2019). Having this, the following hypothesis was designed:

**H4.** Growth opportunity has significant negative relationship with the financial performance of Tepi- green coffee estate Share Company.

### **Measurements of Financial Performance**

Financial ratios are used in papers to measure financial metrics. Financial ratios are used to provide users with different types of information and to let users know how a company has worked in the past. Brealey et al (2020) can also use financial ratios to predict future outcomes. There are several ways to measure profitability. Examples include return on equity (ROE), return on assets (ROA), and return on employment capital (ROCE). The use of two different indicators of financial metrics can be motivated by those who use financial ratios. For companies and lenders, return on assets is the most interesting financial metric because it shows a company's total profit without taking into account the company's capital structure. Shareholders (investors) of a company are more interested in the return on equity because it shows the return on investment capital of shareholders (Brealey et al., 2020).

### **Return on Assets**

Return on assets is a financial ratio that shows users the percentage of profits earned by a company over a period of time (often a fiscal year) in relation to a company's total assets (Brealey et al., 2020). These financial ratios include all assets (equity and leverage) that provide users with information about the percentage of all profits attributable to the company. In a Norwegian study by Hol, S & Van der Wijst, N. (2006), the authors found evidence against the hierarchy theory. The sample included between 100,000 and 130,000 companies with data collected between 1995 and 2000. The authors used short-term debt (STD), long-term debt (LTD), and total debt (TTD) as dependent variables in the regression model. The authors used return on assets (ROA) as an independent variable as a profitability indicator.

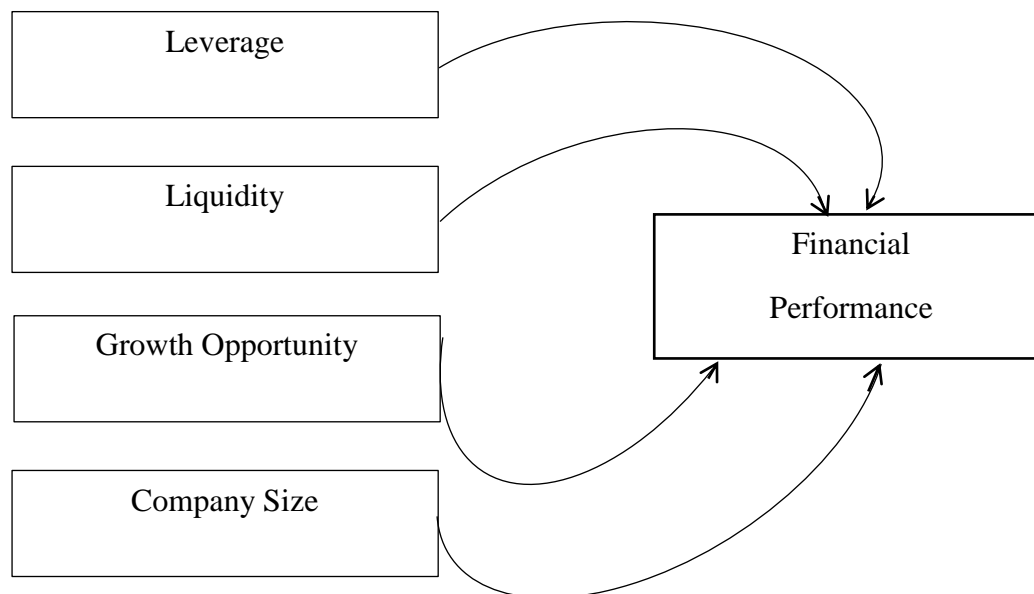
A study by Vithessonthi and Tongurai (2015) used ROA to measure financial performance and examine its relationship to financial leverage. What sets this study apart from other studies is that the sample is divided into companies focused on the domestic market and companies focused on the international market. This is a unique view of the relationship, and the results show that different subsamples have different relationships between financial leverage and financial performance. Domestic-oriented firms experience a negative relationship, whereas international-oriented firms experience a positive relationship between the two variables. These results support the trade-off theory, along with evidence for an association between financial leverage and financial performance by Brealey et al (2020). Vithessonthi and Tongurai (2015) noted in their study that firms that do business in more than one country can be considered large enterprises. Under these assumptions, the offset theory can be tested as there is a theory that large firms can use their financial leverage better than small firms (Brealey et al., 2020). The same logic that large corporations can use financial leverage better than small businesses also exists in agency theory. The negative relationship between asset returns and all the various leverage ratios is also consistent with the hierarchical theory by Myers and Majluf (1984) that high-performing firms do not need leverage to finance their business or investments.

### **Return on Equity**

Return on equity is a financial ratio that shows users the percentage of a company's return on equity in relation to a company's equity over a period (often a fiscal year). This financial ratio tells users how a company has converted its equity capital into earnings. The purpose of using return on equity as a measure of financial performance instead of return on assets is to focus on the remaining return that belongs to shareholders when interest costs associated with debt are paid (Brealey et al., 2020). In a previous study by Abor (2005), the relationship between leverage and financial performance differed depending on the type of debt included in the leverage ratio. There is a significant relationship between short-term debt (STD) and total debt (TTD) and financial metrics measured as return on equity (ROE). The ratio of long-term debt (LTD), which showed a negative attitude toward ROE, was just the opposite. The authors explain these results by inferring which debts are more expensive than others. For example, Abor (2005) argues that the interest costs associated with long-term debt are often more expensive than short-term debt. So, it is better to use short-term debt rather than long-term debt.

The choice of capital structure has a significant impact on financial performance, as evidenced by the trade-off theory claim that companies with high financial performance depend more on financial leverage than companies with low financial performance, which also contradicts the pecking order theory (Abor, 2005). The research made by Tsuruta (2015) finds that small companies in Japan with high financial leverage have better financial performance than companies with low financial leverage. Both when measured as Return on Equity (ROE) or Sales growth. Tsuruta (2015) also argues that it is important to know where the debt comes from and, as creditors; the bank can bring knowledge and special management to the company. Studies have shown that leveraged firms can outperform their banks because of their demands. Banks expect to return money when they provide loans to companies, so they are interested in helping companies run their business efficiently, with a dedicated management team. Smith and Warner (1979) however concluded that there is a relationship between financial leverage and financial performance consistent with the trade-off theory.

**Figure 1: Conceptual Framework**



### **Research Methodology**

The study adopted an explanatory study design. The most important reason is that the paper quantitatively compares the independent variable and the dependent variable. It is also helpful to have a systematic and standardized method of measuring variables to investigate relationships between variables and to discover association patterns. Finally, in explanatory design, the cause-and-effect relationships between variables can be explored” (Bryman & Bell, 2007). Since the researcher wants to find the relationship between the factors that affect the profitability of a company, it was most suitable for this study. The data were collected at a single point in the form of cross-sectional data and panel data, of which 9 years were data. So, it was gathered from the annual report of Teppi Green Coffee Estate Share Company’s balance sheet, income statement and cash flow statement which include: Total company assets, cash balance, gross revenue, net income and taxes paid. Teppi Green Coffee Estate Share Company (TGCEC) was established as a state-owned enterprise in the 1970s under the name Teppi Coffee Development Enterprise. Today it is one of the companies actively involved in the production of coffee and mainly in the marketing of green beans in the international and domestic markets. TGCEC was owned by the Ethiopian government and operated by the Privatization and State-Owned Enterprise Oversight Agency (PPESA) until a 52% stake was sold to Green Coffee Agro Industry (GCAI) in 2011 as part of a joint venture agreement with the government which holds 48% of the shares. For the purposes of this study, the data sample includes the period since privatization. Data was collected over a nine-year period from 2011/12 to 2019/20.

### **Model specifications**

The following regression models were developed for the purpose of this study.

$$Y = a + \beta_1 LEV + \beta_2 LI + \beta_3 FM + \beta_4 GO + e$$

Y=Performance which was measured using return on assets and return on equity

a= constant

$\beta_1, \beta_2, \beta_3, \beta_4$ = Regression coefficients.

LEV (Leverage)

LI=Liquidity

GO=Growth opportunities

FM= Firm size

### **Descriptive Statistics**

The data generated by the above tools were analyzed using correlation and trend analysis techniques to reveal a true picture of Teppi Green Coffee Estate Share Company's financial performance over the past nine years. Quantitative data were analyzed using the financial ratio analysis method, and the results were displayed in table form. The researcher used the financial ratio analysis technique to evaluate the financial performance level of Teppi Green Coffee Estate Share Company using some of the financial ratio indicators selected to evaluate the financial performance of the companies mentioned above, and these indicators are the liquidity ratio, leverage ratio, company size, growth opportunity and profitability ratio. Finally, the data was collected and then entered into Microsoft Excel and analyzed to provide descriptive statistics on ROI, ROI, company size, liquidity, financial leverage, and growth opportunities. Descriptive statistical analysis has been used to analyze data based on trend analysis (or time series analysis) and compare it to a common mean rule. Data analysis is presented using appropriate tables to illustrate the facts.

### **Inferential Statistics**

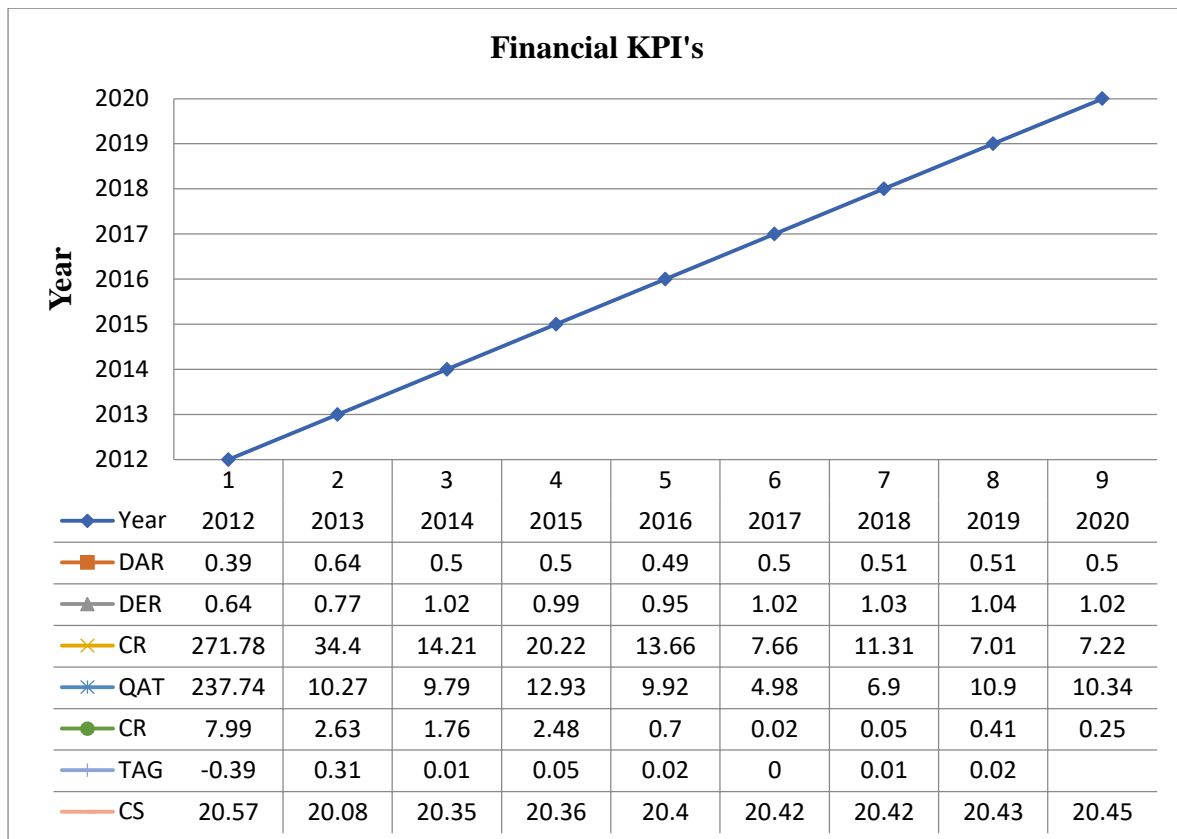
The study used regression analysis to determine the impact of leverage, liquidity, company size, and growth potential on financial performance. The data are presented in the table. The relationship between financial and corporate factors influencing financial results was expected to be consistent with the natural correlation model with a 95% significance level.

This study used a linear regression model to find factors affecting the financial performance of coffee farms at Teppi Green Coffee Estate Share Company. This equation was formulated to test hypotheses and obtain regression results.

## **Discussion**

### **Trend Analysis of Financial Ratios**



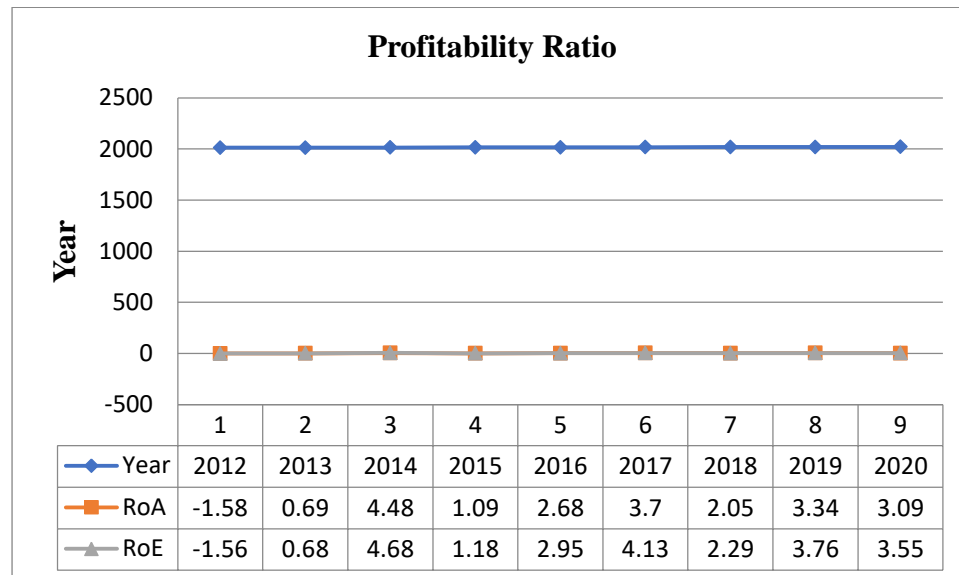


Through the analyzed period, the value of debt to assets ratio increased in the first year and decreased the next year and afterward remains almost similar over time as there was no change of asset observed. The percentage of ratio increased from 2012 to 2013 in the company because the asset decreased at a higher rate than the last year. The same as Pardosi, D. P. & Siagian, H. L., (2021). The conventional debt ratio ranges from 0.00 to 1.00. The lower value of the debt ratio was favorable and a higher value indicates that a higher portion of the company's assets was claimed by its creditors which means higher risk in operation. This is consistent with the result revealed by (Gonzalez, 2012; Vithessonthi and Tongurai, 2015; Kalantonis, et al., 2021). Based on the trend analysis displayed above, TGCEC's debt was well above the conventional rule average and could easily be described as a company that was considered risky when it comes to repay long-term debt. As noted in 2012, the TGCEC debt-to-equity ratio could have been considered moderate, but since 2013, the ratio had almost doubled to the conventional rule average (Gunde, et al., 2017).

The liquidity analysis was measured via the current ratio, quick ratio, and cash ratio of TGCEC's. It was noticed from the chart above that the current ratio status of the company is above conventionally recommended. This is similar to the results of Durrah, O., (2016). As a conventional rule, a current ratio of 2:1 or more is considered to be satisfactory (Pandey and Ramesh, 2007). From the data depicted in the company's balance sheet statement, TGCEC's ability to access cash quickly in order to support immediate demands showed positive figures. Though the financial records show a positive and above-normal value, it was hard to justify that the health of TGCEC was stable just by looking at this ratio. In the year 2012, the cash ratio was 7.99 and then it decreased in large figures for the following years up to 2020. This showed that the company had not sufficient cash to settle its immediate claims.

For this reason, the company was holding its cash, which was not good from the investor’s point of view (Bustani, B. (2020); Damayanti, T. & Halimah, N., 2023).

### Trend Analysis of Profitability Ratios



In this study, two measures of profitability were used i.e., Return on Assets (ROA) and Return on Equity (ROE). The ratio showed a fluctuating trend during the study period. The lowest ratio was -1.58 percent in 2012 and the highest ratio was 4.48 percent in 2014. TGCEC recorded a decreasing trend during the study period with respect to the rate of Return on assets in the company. It increased from -1.58 percent in 2012 to 4.48 percent in 2014 and then decreased to 1.09 percent in 2015. It rose to 3.70 percent in 2016-2017. Then, continued to decline to 2.05 percent in 2018 and 3.09 percent in 2020. But it rose to 3.34 percent in 2019. Return on assets indicates the number of cents earned on each dollar of assets. Thus, higher values of return on assets show that business is more profitable. This ratio should be only used to compare companies in the same industry. The reason for this is that companies in some industries are most asset-insensitive i.e., they need expensive plant and equipment to generate income compared to others. The same result is revealed by Rosikah et al. (2018); Supriyadi, T & Terbuka, U., (2021).

The second profitability ratio analyzed was return on equity. In this analysis, it was particularly important to pay close attention to shareholder’s equity and net income. Based on the data obtained from annual audited financial statements and depicted in the above chart, TGCEC had not able to maintain a return on equity near to conventional rule. The ratio of return on equity TGCEC showed a highly fluctuating trend and was very low or far from the conventional average. Overall, TGCEC’s return on equity has been steady with the exception of the decrease in 2012. Based on the profitability analysis, TGCEC could not be considered a financially healthy company and was not maximizing returns on shareholders’ investments. Financial health determinants must take into consideration multiple ratios, and contracting officers should utilize all available financial data to come to a conclusion when analyzing the financial health of TGCEC prospective contractors. Similar output is found in the studies of Pangestu, E. W. (2019); Bustani, B. (2020); Terbuka, U., (2021).

### Regression Analysis

This analysis is used to calculate the magnitude of the effects of firm size, total assets growth, cash ratio, quick ratio, current ratio, debt to assets ratio, and debt to equity ratio on return on assets and return on equity in Teppi Green Coffee Estate Share Company financial performance. Factors are used to determine how large the effect of independent variables on the dependent variable. If this value of determinant ( $R^2$ ) is greater or closer to 1, then the effect of the independent variables on the dependent variable is stronger (Nevilm S., 2023). If this value of the determinant is getting smaller or closer to 0, then the effects of the independent variables on the dependent variable are weaker. Based on the output of SPSS it appears that the simultaneous effects of the 7 independent variables (firm size, total assets growth, cash ratio, quick ratio, current ratio, debt to assets ratio, and debt to equity ratio) on financial performance measured by return on assets and return on equity. This result is consistent with (Al-Rdaydeh, M. (2018); Adesina, et al., (2018); Kasasbeh, F.I. (2021); It is shown in the following table.

### Test of Goodness of Fit

**Table 6.15: Test of Determinant Goodness of Fit ( $R^2$ )**

Model Summary				
Model	R	$R^2$	Adjusted $R^2$	Std. error of the Estimate
1	.999a	.998	.985	.15897
2	.999a	.997	.981	.19476

a. Predictors: (Constant), Firm size, Total assets growth, Cash ratio, Quick ratio, Current ratio, Debt to assets ratio, Debt to equity ratio

b. Dependent variable: return on asset, return on equity

Source: SPSS Result, 2021

The  $R^2$  result shows that 99.8 % and 99.7 %, of variations on dependent variables which ROA and ROE respectively were explained by the variations in the independent variables included in the models. The adjusted  $R^2$  in the models, 98.5% 98.1%, shows the change in financial performance as measured by ROA, ROE can be explained by these variables. This indicates a good explanatory power of the regression. This result is also revealed in the study of (Ongore, V. O., & Kusa, G. B. (2013); Kasasbeh, F.I. (2021); Alharthi, M. (2022); Rehman, et al, (2022).

### Conclusions

The study showed that Teppi Green Coffee Estate Share Company had satisfactory flow and fast rates during the study period. This indicates that the company has a satisfactory liquidity state. The current ratio and quick ratio were higher than the standard values, which was satisfactory. It is concluded that the above proposals can be considered for efficient and effective financial results of the Teppi Green Coffee Estate Share. The company maintained an ideal flow ratio and fast ratio. However, it is lower than the generally accepted rule when it comes to cash flow ratios from 2012 to 2020. The company was in good shape and healthy in terms of leverage on its debt. This can be seen in the evolution of debt ratios over the years. This has always been done within generally accepted rules. This means that the company has less debt than equity capital. The company was in poor health in terms of return on assets (ROA) and return on equity (ROE). This can be seen in development. The value of the ratio of the return on assets to the return on equity is always within the generally accepted standard rules.

Pearson's correlation was used to measure the correlation between leverage and financial performance, as measured by return on assets (ROA) and return on equity (ROE). Thus, leverage had a positive and negligible impact on financial performance as measured by return on assets (ROA) and return on equity (ROE). On the other hand, liquidity showed a negative correlation with the company's performance, which means that the higher the liquidity value, the more invariably affected the company's financial position. Similarly, growth opportunities as measured by total assets had a significant amount of value for the Teppi Green Coffee Estate Share Company in terms of return on assets (ROA) and return on equity (ROE) and Pearson's correlation matrix. On the other hand, the results of correlation analysis for company size showed a negative value, indicating a significant relationship between value and return on assets (ROA) and return on equity (ROE).

From the regression analysis, it was concluded that the independent variables (predetermined financial KPIs) highly with the adjusted  $R^2$  (.985 & .981) explain the explanatory variable (financial return measurements of return on assets (ROA) and return on equity (ROE). A number of previous studies Batchimeg, B. (2017); Sahyouni, A., & Wang, M. (2019); Bustani, B. (2020); Kasasbeh, F.I. (2021); Hasanuddin, et al. (2021); Damayanti, T. & Halimah, N. (2023) reveal the same result.

Based on the financial performance analysis, the following recommendations were made.

- ☞ Teppi Green Coffee Estate is recommended using ratio analysis to analyze a company's financial position. Ratio analysis covers profitability, leverage, and liquidity indicators. Each category covers different aspects of a company's financial structure that together determine its overall financial position.
- ☞ More attention should be paid to leverage, liquidity, growth opportunities, and company size. The most leveraged companies could face financial collapse in case of default. These companies may face future loan problems. Leverage can increase shareholder returns on invested capital and can make appropriate use of tax incentives associated with borrowing. It was suggested that financial soundness should be considered as an important factor in measuring financial performance.
- ☞ Businesses should not rely on short-term debt, which accounts for most of their leverage. Companies should pay particular attention to planning internal policies that should further improve accounting efficiency due to poor accounting performance during the study period.
- ☞ Management at Teppi Green Coffee Estate Share Company is encouraged to identify factors that may have negative consequences. We focus only on those assets that have a significant impact on the growth of the company's assets and that can increase its growth rate and financial stability.
- ☞ Because a company's total assets are positively and strongly associated with a company's financial performance, this study also recommends that Teppi Green Coffee Estate Share Company increase its total asset value by increasing its total assets and reducing the composition of its current assets. Debt and liquidity through effective management. This provides liquidity to the company while maximizing profits and shareholder value.

### **Limitations and Future Research Directions**

To examine the financial performance of TGCESE, the current study included only selected financial performance indicators. So, it is deemed that an increased number of independent variables will generate more useful information and will enhance further the scope of future

studies. In addition to that it is recommended that in future researchers may also consider comparison of the performance of other similar sectors. Moreover, in the future research, company's financial performance may be conducted on primary data including interview and survey.

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