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Financial Restructuring and Commercial Banks Performance Nexus in Zimbabwe

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ABSTRACT

Corporate restructuring has gained considerable salience in strategic management in recent years. Effective corporate restructuring has permitted strategic managers of ailing organizations to regain their competitive advantage. Specifically, financial restructuring is one of the key pillars of corporate restructuring. Prior research on the nexus between financial restructuring and performance of commercial banking institutions in developed and developing nations has yielded inconclusive empirical evidence. Therefore, the focus of this study is to examine the nexus between financial restructuring and performance of commercial banks in Zimbabwe. This study employs the random effects model (REM) by making use of 2011-2016 panel data from 10 commercial banks. Empirical evidence establishes that financial restructuring has a positive influence on performance of commercial banks. The study, therefore, recommends that the management of commercial banks should embrace a conservative approach by increasing equity financing so as to avoid bank failures.

KEYWORDS

Banks, Debt-Equity Ratio, Failure, Fixed Effects Model, Performance, Restructuring, Statements, Zimbabwe

INTRODUCTION

In the wake of the global economic crisis of 2007–2009, corporate restructuring has attracted intense interest from corporate strategy scholars as a topical issue during the past decade. In order for organizations to recapture a competitive edge in the market, corporate restructuring has become more of a pre-requisite rather than an option. Furthermore, in this globalized scenario, technology has a dramatic impact on every kind of organization. It forms completely new challenges on the one hand but on the other hand it offers entirely new opportunities. Additionally, spatiotemporal borders disappear. Totally new business models are being developed and companies have discovered completely new strategies to gain competitive advantage like forming alliances, including restructuring, and mergers.

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Interestingly, it has been observed that restructuring is one of the corporate renewal strategies that can be employed by executives of companies across the world (Akbar et al., 2022; Dzingirai & Baporikar, 2022; Gupta, Kumar, & Chattopadhyay, 2022). After all the objective of management, especially in global economy is repetitive success (Baporikar, 2018).

Corporate restructuring ensures the survival and growth of an organization during the stage of performance decline by adapting to the volatile business environment (Yadav & Shrivastava, 2016). In the context of corporate restructuring, financial restructuring has been highlighted as the major type of corporate restructuring since it has received statutory consent. It is common knowledge that the global banking sector was not spared from the negative effects of the recent global economic crisis. It is within this context that the global economic crisis has caused poor performance of many banks worldwide. The negative impact of the global economic crisis on performance of banks around the world was heterogeneous owing to distinct statements of financial position (Bhimjee, Ramos, & Dias, 2016). Furthermore, governments all over the world play a crucial role in the development of infrastructure and the provision of basic services to the citizens. With increasing population, urbanization, other developmental needs, the governments' ability to address public needs through traditional means is severely constrained (Baporikar, 2020). Hence, it is of great importance to mention that the banking sector of any country plays a fundamental role with regard to economic development and growth (Alkhazaleh, 2017). Following this line of thinking, it is not surprising that many countries that do not have sound banking sectors find it difficult to stimulate sustainable economic development and growth, especially the developing countries. Although the recent financial turmoil negatively affected bank performance, institutional factors have a bearing on the performance of banks (Arias, Maquieira, & Jara, 2020). Keeping this in mind, many banks are now pressurized to focus on financial restructuring as a response to their poor performance. Accordingly, this state of affairs has renewed scholarly interest in bank performance (Berger, Lia, Morrisd, & Roman, 2017).

Going forward, it is worth mentioning that many banks in both developed and developing economies are embracing financial restructuring as a powerful tool for revitalizing their performance. The high leverage ratios have forced banks in the United States of America (USA) to focus their attention on debt restructuring, especially after the credit crunch of 2008 (Erfani & Vasigh, 2018). As for India, the Reserve Bank of India has managed to come up with corporate debt restructuring in 2001 as a strategy to ensure recovery of bank performance in India in the face of a plethora of internal and external problems (Swani & Bhuyan, 2017). Nonetheless, India faced an exponential growth of distressed banks from 2008 to 2016 (Kaur & Srivastava, 2017).

In the case of Zimbabwe, the business environment has remained volatile and chaotic in spite of the implementation of multi-currency in 2009. Some of the economic challenges include deindustrialization, acute financial crisis, low real Gross Domestic Product (GDP), widening of Balance of Payments (BOP) deficit, weak domestic demand, the exponential growth of local and external debt, and weak business confidence. In this chaotic business environment, companies in different sectors of the economy have embarked on a constant restructuring of their business activities and financial structures as a way to survive and also to promote sustainable growth. Notably, banks are not an exception. It is within this context that Dzingirai (2021) observed that most of the Zimbabwean banks faced viability challenges that necessitated corporate restructuring.

In light of the above, existing commercial banks in Zimbabwe have faced fierce competition which threatened their existence (Abel & Le-Roux, 2017). Sadly, banks that failed to efficiently and effectively embark on financial restructuring were closed. For instance, AfrAsia Bank Zimbabwe, Allied Bank Limited, Trust Bank Corporation Limited, Interfin Bank Limited, Royal Bank of Zimbabwe Limited, Genesis Investment Bank, and Capital Bank were closed under the multi-currency system. In this context, the upsurge in bank failure has caused undesirable socio-economic consequences. The following Table 1 shows the bank failures after the introduction of the multi-currency system in Zimbabwe:

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