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Assessment of Financial Structural Change on the Efficiency of Commercial Banks in Zimbabwe

By

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Abstract
Corporate restructuring has become a common phenomenon around the world. Unprecedented number of companies globally have reorganized their divisions, restructured their assets, streamlined their operations and spun-off their divisions in a bid to spur company performance. Restructuring enabled numerous organisations to respond quickly and more effectively to new opportunities and unexpected pressures to re-establish their competitive advantage. The study sought to analyse how financial structural change impact on efficiency of commercial banks in Zimbabwe. The study adopted a quantitative research approach rooted in Positivism research Philosophy. In this study a simple random sample of 100 managerial respondents were taken as research subjects. Questionnaires were used to collect data. The study employed the cross-sectional research design. Data was uploaded on Statistical Package for Social Sciences (SPSS) and analysed using Chi-Square Test of Independence. The data was presented in form of tables, graphs and pie charts. The study unearthed that commercial banks in Zimbabwe use all the four types of bank restructuring which included, interest rates structure, debt structure, capital requirements structure and liberalization structure. The findings of all the hypotheses revealed that financial liberalization, interest rates structure, debt structure and capital requirements have a significant positive influence on the performance of commercial banks in Zimbabwe. Managing bank restructuring together with deposits and customer loans increases profitability of commercial banks in Zimbabwe. The research concludes that the performance of most commercial banks in Zimbabwe is determined through restructuring bank markets, capital and debt re-structuring to influence financial performance of all banks. The study recommends that there is need to institute policy reforms geared towards viable restructuring for the adoption of a market based financial system to improve profitability and enhance financial inclusion. The conceptual contribution is that bank restructuring in Zimbabwe does matter because it significantly contributes to profits. Market based approached is deemed the best approach in allocating resources in markets. Longitudinal studies need to be carried out to assess dynamics of change in technology use on performance of employees in Zimbabwe banking sector.
Key words: Finance, Structural Change, Banks, Zimbabwe.

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Introduction and Background of the Study

Industries have been going through a phase of major structural changes, due to internal and external environment developments. These can be due to a change in strategy, structure, shared vision, skills or even technological circumstances. Financial restructuring is the reorganizing of a business' assets and liabilities (Nazir & Alam, 2010). Financial structural change involves reorganization of capital, buy-back, corporate debt restructuring, acquisitions, mergers, joint ventures and strategic alliances (Srivastava and Mushtaq, 2011). Nazir and Alam, (2010) opined that financial structural change therefore involves effecting change in a firm's capital structure to achieve balanced operative results.

Javed and Akhtar (2012) asserted that financial restructuring is aimed at bringing balance in debts and equity funds, short term and long-term financing, to achieve reduction in finance charges, to reduce loss of capital, to improve market value of shares, to reduce the control of financiers on the management of the organisation. Javed and Akhtar (2012) argue that the objective of financial restructuring is to take measures that avert the impending insolvency that ensure the short-term survival of the business. It is assumed this is the prerequisite for a sustainable restructuring process. The medium and long-term goal of financial restructuring is re-establishment of a healthy and solid capital structure (Javed and Akhtar, 2012). Managers who approach change with an open mind and focus on its positive elements find ways to motivate others and harness enthusiasm for further progress (Robbins, 2013).

Khrawish (2011) argue that Nations that are confronted with financial problems in the financial markets experience issues of money related control associated with the incapability of direct credit and loan fee controls. Khrawish (2011) clarified that these financial controls are connected to wastefulness in asset distribution. Under such a system, fiscal totals stop to endure a cozy relationship with the objectives of financial strategy (Khrawish, 2011). In addition, Adebiyi (2012) asserted that money related changes are vital to most financial structural changes. Adebiyi (2012) noted that the emphasis is on moving to progressively aberrant methods for the financial sector and subsequently liberating controls on both credit and financing costs to promote the efficiency of the financial sector. Javed and Akhtar (2012) further alluded that backhanded fiscal control likewise upgrades the advancement of cash and between bank markets, which in the end additionally improve the intensity of money related approach. It is attractive accordingly to present the utilization of such instruments right off the bat in the change procedure as alluded by (Adebiyi, 2012). Increasingly it is assumed circuitous market-based methodologies improve financial control and improve the probability of accomplishing macroeconomic strength in the Zimbabwe banking sector which this study also seeks to unearth.

Profit is the ultimate objective of commercial banks and thus all the strategies planned and activities performed are meant to achieve this objective. To measure the financial performance of commercial banks, there are varieties of ratios used. Murthy (2015) asserts that the major ones are Return on Asset (ROA) and Return on Equity (ROE). Return on Equity is a financial ratio that alludes to how much profit a company earned compared to the total amount of shareholder capital contributed or found on the balance sheet (Murthy, 2015). Return on Equity is what the shareholders see in return for their investment (Murthy, 2015). A business that's more likely to be

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one that is able of creating cash internally is the one which includes a high return on capital invested. In this way, it is assumed the higher the Return on Equity the superior the company is in terms of profit creation. It is further clarified by Khrawish (2011) that ROE is the proportion of Net Income after Taxes divided by Total Equity Capital. It is the rate of return earned on the funds in the bank by the shareholders. It reflects how effectively and efficiently the management of commercial banks' is using shareholders' funds (Khrawish, 2011).

The Banking Industry in Zimbabwe is regulated by the Reserve Bank of Zimbabwe (RBZ). The banks operate within the purview of the Banking Act (Chapter 24:20), Exchange Control Act (Chapter 22:05) and Money Laundering and Proceeds of Crime Act [Chapter 9:24]. These Acts are primarily to facilitate the development and maintenance of a sound monetary Policy. The Reserve Bank of Zimbabwe is responsible for formulating and implementing monetary policy and fostering the liquidity, solvency and proper functioning of the financial system. The banking sector in Zimbabwe is composed of Commercial Banks, Building Societies and a Savings Bank. However, this study is premised on financial structural change on commercial banking sector in the context of Zimbabwe.

The banking sector performance and the economy of a country are closely related (Katrodia, 2012). Notably, the soundness of the commercial banks is largely dependent on their financial performance which is normally used to indicate the strengths and the weaknesses of such a commercial bank (Makkar & Singh, 2013). The financial performance of any business organization is normally evaluated by determining their profitability. This is due to the banks need to generate the necessary income in order to be able to cover their costs of operations which are incurred as they go about their work.

Bank financial performance is of unique interest due to the fact that poor financial performance will lead to liquidity problems to commercial banks leading to depositors' panic and which may in turn lead to bank failure, (Makokha, Namusonge & Sakwa, 2016). It is assumed that the consequence of a single bank failure may affect many industries and hence negative consequence on the economic growth. Due to the banks being major financial intermediaries, sources of finance and are the main depositors of savings in the developing countries such as Kenya, their importance is more pronounced (Athanasoglou, Brissimis & Delis, 2006).

According to Reserve Bank of Zimbabwe Report (2016), Zimbabwe has thirteen registered commercial banks which are competing for the compact market share. Out of the thirteen banks, six are international banks and these comprise of Standard Chartered, Banc ABC, Barclays, Stanbic, Eco bank and Nedbank. The other seven local banks comprise of CBZ, FBC, ZB, Met Bank, Agribank, NMB and Steward. Both local and international banks' survival is based on meeting customer expectations to remain profitable by providing innovative products and services. Most of the troubled financial institutions which were a result of bank failure were locally owned banks as evidenced in the Zimbabwean economic history due to hyperinflation. In the same period Trust Bank Ltd, Barbican Bank and Royal bank failed to sail through and later amalgamate to form the Zimbabwe Allied Banking Group (ZABG) in 2005 (Deposit Protection Corporation, 2008). Time Bank, National Discount House, United Merchant Bank, and Rapid Discount House also closed in the same period. Savings were eroded during inflation and people lost confidence in the banking sector which caused the emergence of the parallel market. During the hyperinflation period, the banking sector experienced a lot of challenges like liquidity constraints, failure to secure foreign credit lines, bad loans and foreign currency shortages (Norumedzo, 2014).It is assumed adopting meaningful strategies improves strategic operations of the banking industry in Zimbabwe which this study seeks to address on how financial structural change impact on the performance of commercial banking sector in Zimbabwe.

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Statement of the Problem

Corporate restructuring has become a common phenomenon around the world. Unprecedented number of companies across the world have reorganized their divisions, restructured their assets, streamlined their operations and spun-off their divisions in a bid to spur company performance and banks have not been spared in these changes. Zimbabwe is facing a rampant inflation, a weakening currency and an economy in crisis. Accordingly lack of confidence in the banking sector has often been seen as a driving force behind a crippling depositor fatigue that ravaged the banks. It is assumed the rate of inflation, which is currently triple digit, will likely to remain at its current high levels as the local currency continues to dive against the American Dollar. The shrinking economy, rising inflation and a weakening Zimbabwean Dollar are taking a huge toll on the Commercial Banking industry in Zimbabwe. Presumably, most banks are in distress as witnessed by the retrenchments, the liquidity crunch and exchange rate woes. This comes, as the government's effort to de-dollarize the economy are staggering. The financial changes by the RBZ through the introduction of the Nostro and Real Time Gross Settlements accounts (RTGS) have further worsened the confidence by the public. In 2019, monetary authorities initiated several amendments to the statutes governing financial sector in order to cater for the changing environment underpinned by the financial deepening (RBZ, 2019). Emphasis has been put on governance to curb the financial distress banks in Zimbabwe have been facing. However this research seeks to find how financial restructuring impact on performance of the commercial banking sector in the context of Zimbabwe

Objectives

1. To assess the impact of financial structural change on performance of commercial banking sector in Zimbabwe.

Hypotheses

H1: Exchange rate liberalisation positively improves management quality of the commercial banking sector in Zimbabwe.

H2: Interest rate structure positively related to promotion of mergers in the commercial banking sector in Zimbabwe.

H3: Debt financing positively improves the corporate debt restructuring of commercial banking sector in Zimbabwe.

H4: Capital requirement positively improves strategic alliances of commercial banking sector in Zimbabwe.

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Conceptual framework

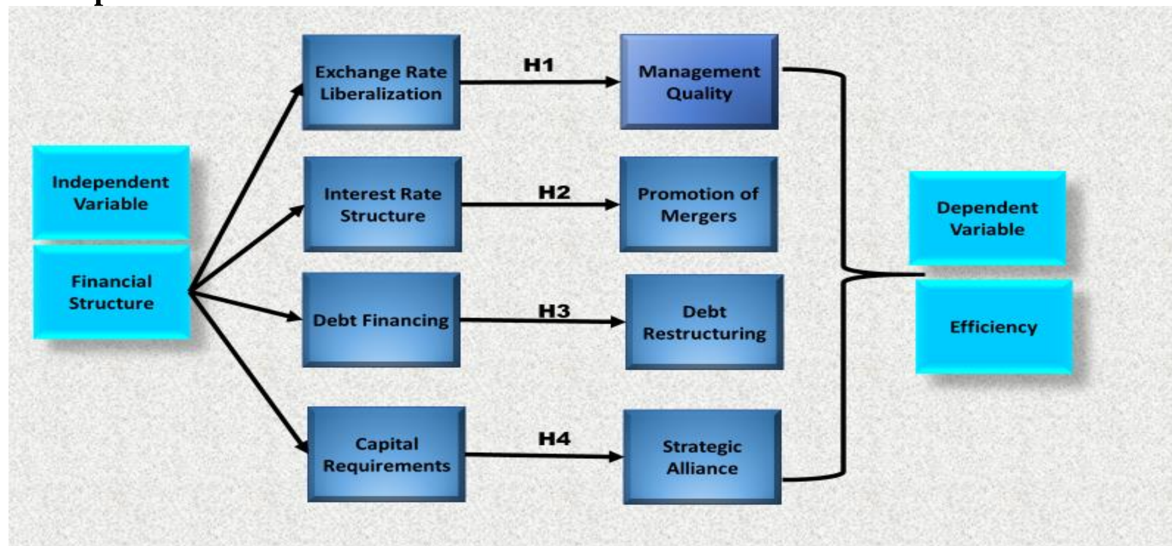

Figure 1: Conceptual Framework
Source: Survey, (2020)

Methodology

The study adopted a quantitative research approach rooted in Positivism research Philosophy. In this study a simple random sample of 100 managerial respondents were taken as research subjects from a population of 1000 employees from the commercial banking sector in Zimbabwe. Questionnaires were used to collect data. The study employed the cross sectional research design. Data was uploaded on Statistical Package for Social Sciences (SPSS) and analysed using Chi-Square Test of Independence. The data was presented in form of tables, graphs and pie charts. The sample size was calculated from a mathematical calculation as presented below as suggested by Momeni (2007).

$$n = \frac{N\ XZ^2\ X\ \sigma^2}{\epsilon^2\ X\ (N-1) +\ (Z^2\ X\ \sigma^2)} = 100$$

Based on the sample size, 100 questionnaires were distributed to managerial respondents.

Theoretical Framework

The study is hinged on the bank-based model by Allen and Gale (2004). Allen and Gale (2004) asserted that competition policy in the banking sector is complicated by the necessity of maintaining financial stability for a positive change in structure. The bank-based model advocates for liberalization of the market. With a bank based financial model Goldsmith (1969), Boot and Thakor (1997), Allen and Gale (2000), Demirgüç-Kunt and Levine (2001) in (Grobman, 2018) also suggest that financial intermediaries can improve the acquisition of information on firms, intensity with which creditors exert corporate control, provision of risk-reducing arrangements, pooling of capital, and ease of making transactions. These are arguments in favour of well-developed banks. They are not reasons for favouring a bank based financial system. Rather than simply noting the growth-enhancing role of banks, the case for a bank-based system derives from a critique of the role of markets in providing financial functions for an effective financial structural change in the money market.

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Literature Review

2. The impact of financial structural change on performance of commercial banking sector

Restructuring alludes to the reorganization of the corporate operations to attain higher levels of operating effectiveness (Pearce & Robinson, 2010). Pearce and Robinson (2010) viewed restructuring as a process in strategy execution where managers endeavour to recast their organizational structure, administration, and culture to achieve competitiveness and quality requested by the special necessities of its strategies. Wilburn (2007) has credited the shift due to expanded competition from both domestic and outside companies. This has driven to an effort by companies to diminish the number of competitors and way better meet desires of their clients by focusing only on certain customer segments. It is assumed Organisational structural change enhance the competitiveness of commercial banks in achieving their desirable objectives.

Financial liberalization plans and programs, aiming at maximizing resource allocation, and advancing economic expansion through competition and innovation are considered as a matric for banks to succeed in their endeavour (Wang &Luo, 2019). However, existing studies have not yet come to an agreement on how financial liberalization influences commercial banks. (Cubillas and González, 2014) was of the opinion that financial deregulation may be beneficial to the banking sector by promoting competition, spurring sophistication of financial controls, offering new financial tools and services, and cultivating the general productivity of banks. The cautionary views, however, caution that financial liberalization compounds macroeconomic recurrent fluctuations and amplifies the fragility of commercial banks, eventually expanding the likelihood of financial crisis (Hamdi, Hakimi & Djelassi, 2013; Cubillas & González, 2014). Gibson (2010) asserted that to stay within the business banks need to strategise on how to keep afloat their clientele through providing a unique customer feel. Gibson (2010) argue that strategies of managing change in the banking industry involves any fundamental alter in a company's operations and financial structure, planned to enhance the company's esteem.

According to Gibson (2010), the motive to control poor commercial bank performance heightens the need for restructuring, declining sales, accounting losses or falling stock price are silent signals for financial restructuring to turn around the condition. Hamdi, Hakimi, and Djelassi (2013) opines that the basis for financial restructuring is for the restructuring firm to redress an expansive blunder in how it is esteemed within the capital market. This problem is predominant in huge diversified companies that operate in numerous businesses. Accordingly, Hamdi, Hakimi, and Djelassi (2013) suggested that tracking stock, buybacks or leverage buyouts are a few of the financial restructuring devices that can be capitalized on to decrease this value gap. Hitt, Ireland and Hoskisson (2010) therefore alluded that financial restructuring is more often than not carried out by commercial banks for financial reasons and the need to arrange themselves in more strategic positions for productivity and viability. It is assumed financial restructuring is the method through which banks drastically modifies the legally binding relationship that exists among its creditors, shareholders and other stakeholders and eventually resulting in greater performance.

Khrawish (2011) was of suggestion that financial restructuring has empowered banks to universally react more rapidly and effectively to modern opportunities and unforeseen pressures, subsequently re-establishing their competitive advantage. Hitt, Ireland and Hoskisson (2010) asserted that financial restructuring enables banks to adjust quickly and outweigh competitors. Gibson (2010) contends that banks restructure to support corporate strategy or to take advantage of a trade opportunity (Hamdi, Hakimi, and Djelassi, 2013). Gibson (2010) opined that financial restructuring prepares banks with the essential competences needed to capture opportunities that display themselves within the operating environment through leadership in focused value of operating proficiency and effectiveness.

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Boyes and Melvin (1990) contended that irrespective of the interest rate regime structure, banks that are ineffectively managed could fall flat. Banks that are appropriately managed tend to succeed in attracting deposits. Poor administration of banks may cause panic, leading to investors surging to withdraw their reserves (Pindyck and Rubinfeld, 2004; Amacher and Ulbrich, 2005). This has been experienced in Nigeria's commercial banks, compounded by poor management and destabilized the economy (Aluko, 2008). The market does not continuously work effectively and sometimes government activity is vital to overcome market issues and lead to a more productive use of resources (Baughn and Donald, 2003). Market failure may be a state in which the market does not use resources efficiently (Parkin et al., 2003).

Results and Discussion

Table 1: Response rate Analysis

Instrument	Issued	Returned	Response Rate
Questionnaire	100	100	100%

Source: Survey, (2020)

The study results indicate a response rate of (100%). This was achieved since questionnaires were self-administered by the researcher. According to Aaker (1998) a response rate of 75% is enough to allow the researcher to proceed with the analysis of findings. Given a response rate of (100%) the researcher proceeded with the analysis of findings. This is also corroborated by Yin (2011) who argues that any response rate above 60% is adequate enough to make meaningful primary data analysis.

Gender Composition

Research participants were 60, 57% were male and 43% were female. This is a clear indication that both genders were involved in the study, though not in equal proportion. Such a mix in gender composition enables sound decisions to be made regarding financial structural changes adopted by commercial banks in Zimbabwean. Figure 1 provides a diagrammatic view of the gender composition of the participants in this study.

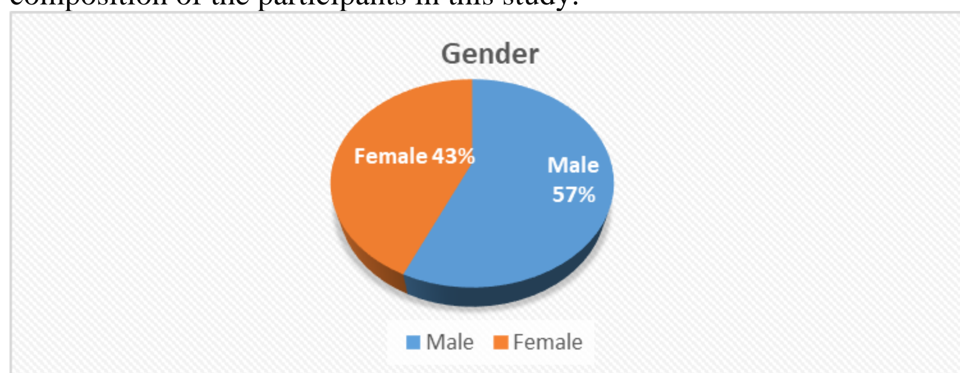

Figure 1: Gender of Respondents
Source: Survey (2020)

Education level of participants

From the survey 42% of the respondents had at least an undergraduate degree, (33%) attained post graduate qualifications, (17%) were Diploma holders and (8%) attained certificates qualifications (Refer to Figure 2). This shows that the participants are highly educated, and they are a true

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reflection of the educated population as such they are well versed with providing responses on financial structural changes in the banking sector in Zimbabwe. Nevertheless, both qualifications do permit one to be knowledgeable about the area under study and provide valuable responses.

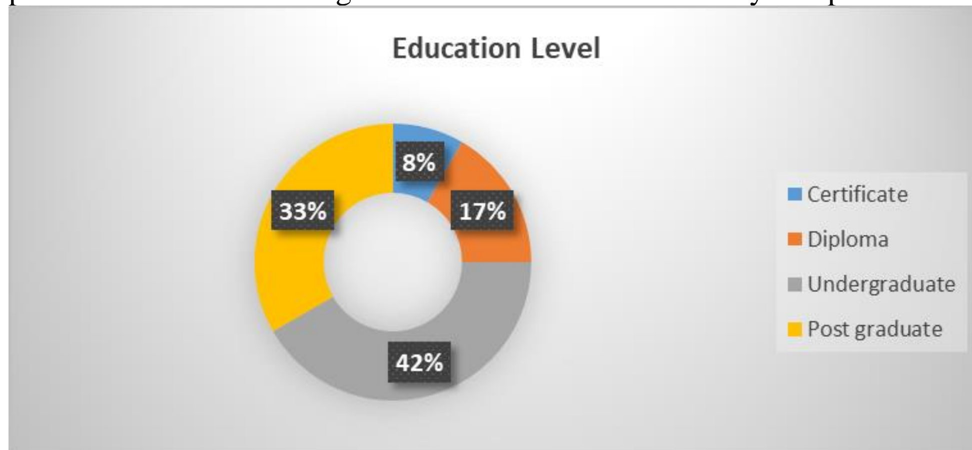

Figure 2: Educational Level of Respondents
Source: Survey (2020)

Management level of participants
From the study, (48%) of the respondents were senior managers who oversee the day to day operations of the digital banking business while (37%) were middle managers. The remainder (18%) were line managers who provides direction on what the bank ought to be involved to remain profitable and viable from a digital front (See Figure 3).

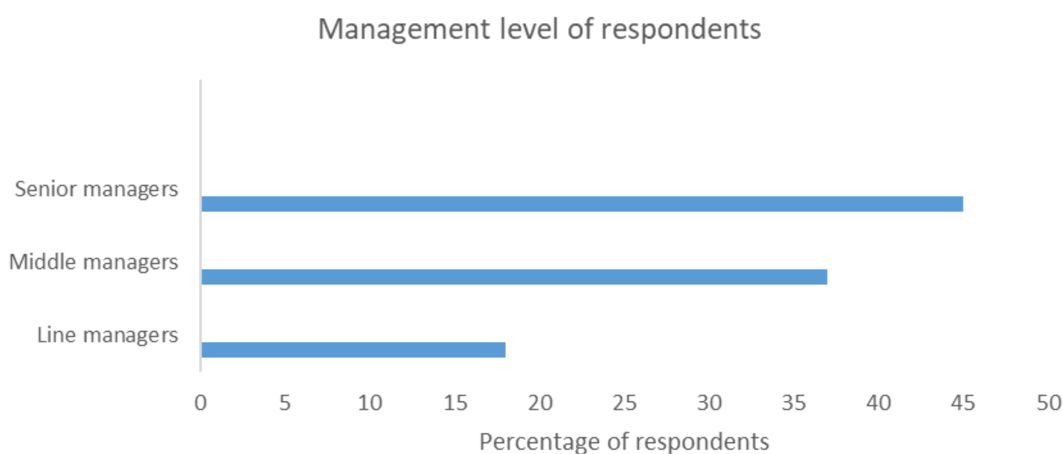

Figure 3: Management Level of Respondents
Source: Survey (2020)
The study results as indicated in Figure 3 imply that the banking sector in Zimbabwe had a viable experienced workforce to steer operationalisation of the business to meet desirable objectives.

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Descriptive Statistics

Table 2: The impact of financial structural change on performance of commercial banking sector in Zimbabwe

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Banks used earnings for expansion	100	2	5	3.75	.897
Banks used interest rates to promote mergers	100	3	5	3.87	.878
Banks used exchange rate liberalisation for management of quality	100	1	5	4.04	.873
Banks used debt financing for debt restructuring	100	1	5	3.77	.912
Valid n Litwise	100				

Source: Survey (2020)

The study sought to determine the efficacy of financial structural change on performance of the banking sector in Zimbabwe. The results obtained show that the bank used earnings for expansion which helped them to survive as shown by a mean of 3.75 and standard deviation of 0.897. Banks in Zimbabwe used interest rates to promote mergers as indicated by a mean of 3.87 and standard deviation of 0.878. the study also show that banks were using exchange rate liberalisation for the management of quality as shown by a mean of 4.04 and standard deviation of 0.873. The results also indicate that banks were using debt financing for debt restructuring as indicated by a mean of 3.77 and standard deviation of 0.912 (See Table 2). This implies that financial structural change does influence the business financial performance to a large extent.

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Correlation Analysis

The researcher used Pearson correlation analysis to determine the impact of financial structural change and performance of the banking sector in Zimbabwe. In particular, Pearson correlation would determine the strength of relationship between the study variables. The study results indicate that variables were related. Table 3 shows the relationship among variables

Correlations

		Management quality	Promotion of mergers	Debt restructuring	Strategic Alliance
Exchange rate liberalisation	Pearson Correlation	1	.192	.008	.358
	Sig. (2-tailed)		.167	.954	.009
	N	100	100	100	100
Interest rate structure	Pearson Correlation	.192	1	.079	.188
	Sig. (2-tailed)	.167		.575	.178
	N	100	100	100	100
Debt financing	Pearson Correlation	.008	.079	1	.001
	Sig. (2-tailed)	.954	.575		.996
	N	100	100	100	100
Capital requirements	Pearson Correlation	.358	.188	.001	1
	Sig. (2-tailed)	.009	.178	.996	
	N	100	100	100	100

Source: Survey (2020)

Regression Analysis

In order to understand the impact of financial structural change and performance of commercial banks in Zimbabwe, the researcher ran a linear multiple regression test using SPSS version 24.0. The findings from the regression model are indicated by Table 4:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	Sig F Change
1	.099[a]	.010	-.733	.511	.010	.118	.000

Source: Survey (2020)

From Table 2, R acts as the square root of R2 and shows the correlation between the predicted and the observed values of dependent variable. In addition, R2 shows the proportion of the variance in the dependent variable (Financial structural change) which can be explained by independent variables such as management of quality, promotion of mergers, debt restructuring and strategic alliance. In addition, the adjusted R2 is the adjustment of R2 that would penalize the addition of any extraneous predictors to the regression model (Martin, Mortimer & Andrews, 2015; Ziliani & Bellini, 2014). On the other hand, the Std. Error of the Estimate shows the root mean squared error. In other words, it acts as the standard deviation error term. The F-statistic is the Mean Square (Regression) divided by the Mean Square (Residual). From the findings, the correlation coefficient of all types of financial structural change diversification strategies (exchange rate liberalisation,

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interest rate structure, debt financing and capital requirements) was estimated at r = 0.999. The adjusted R 2 coefficient of determination which shows the variation between in the dependent variable due to changes in the independent variable was R2 = 0.73. This shows that about 73.3% of financial structural change adopted by commercial banks in Zimbabwe can be explained by exchange rate liberalisation, interest rate structure, debt financing and capital requirements change strategies. The remaining 26.7% would refer to other factors out of interest of the present study. In addition, the findings showed that the model for the study was significant at the F statistics (F = 11.8) and (Sig = 0.000) at 5% level of significance. This shows that the whole model was significant. In other words, this means that there is an overall effect for all financial structural change strategies and performance of the commercial banking sector in Zimbabwe. Table 5 shows regression analysis of financial structural changes of commercial banks in Zimbabwe.

Table 5: Regression Analysis of Financial Structural changes of Commercial Banks in Zimbabwe

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	3.901	.897		2.120	.039
	Exchange rate liberalisation	.675	.031	.072	.462	.004
	Interest rate structure	.639	.022	.058	.395	.003
	Debt financing	.517	.028	.035	.246	.001
	Capital requirements	.609	.039	.034	.222	.002

Source: Survey (2020)

From the findings, it was established that the study showed a statistical significant relationship with $p < 0.002$. Moreover, the findings revealed that exchange rate liberalisation would result in an increase in management of quality by a factor of 0.675. In addition, a unit increase in interest rate structure would lead to an increase and promotion of mergers by factor of 0.639 and debt financing would result in increase of debt restructuring by a factor of 0.517 while capital requirements would lead to increase in business continuity through strategic alliance by factor of 0.609. From the findings, exchange rate liberalisation, interest rate structure, debt financing and capital requirements were all significant in predicting the effect of financial structural change in commercial banking sector in Zimbabwe since the p values were less than 0.05.

Conclusions and Recommendations

The findings revealed that exchange rate liberalisation is positively correlated to management of quality of commercial banks in Zimbabwe while interest rate structure is positively correlated to promotion of mergers, debt financing positively correlated to debt restructuring and finally capital requirements is positively correlated to strategic alliance of commercial banks in Zimbabwe. Impliedly changes of financial control methods are best joined by equal measures to reinforce cash and between bank markets and frameworks. Although general support exists for the idea that financial structural change is relevant for banks in Zimbabwe, the available knowledge is highly descriptive and yields theoretically supported guidelines for banks. Banks and government should all acknowledge the importance of the market-based approach which advocates for the

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liberalisation of the market to achieve greater performance. Zimbabwe bank market concerns the nearness of causal markets which has arisen because of the restraint as well as the significance expense of little and successive changes.

Integrating market-based configuration with business strategy is conducive to the enhancement of organisational effectiveness, particularly for performance in Zimbabwe banking sector. This study provides strategic solutions aimed at facilitating adaptation process instead of searching for ad hoc solutions to financial structural change and its impact on performance of the banking sector in the Zimbabwean context. Accordingly, the major practical contribution of the present research is that it provides much needed empirical data on financial structural change and performance of the banking sector in Zimbabwe. This information is important given that the only other comparable studies focused more in other banks in developed countries. This will allow policy makers to redesign their documents accordingly. Many others could derive similar implications from most of these research findings.

This study thus responds to the call for including market-based approaches in the banking industry in developing nations for sustainability. The success of the banking sector is dependent on their performance. What this implies is that the skills of management are crucially important to the improved performance of banks in the economy. Therefore, there is need for management and other employees to acquire the necessary management skills and expertise to enhance the future survival in the stiff competitive business environment. It is quite difficult in the contemporary business environment that is characterised by stiff competition for banks to manage these businesses competitively with inadequate knowledge and skills. It is recommended that for banks to perform well in the contemporary business environment they must leverage on human capital management practices which impact on their performance. The government should create an enabling environment which gives the banking institutions a guarantee for their survival. This study raises a number of opportunities, both in terms of theory development and concept validation. The study could also be extended in longitudinal and comparative ways focusing on different financial sectors of the economy in Zimbabwe rather than focusing only on banks.

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