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DEDICATION

This research is dedicated to my mother. You are the best mother in the world.

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Firstly, I would like to express my greatest sense of thanksgiving, reverence and honor to the Father of our Lord Jesus Christ for revealing to me ideas to carry out this research. It is not by might nor by power, but by the Spirit of the Lord (Zechariah 4:6).

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To all questionnaire respondents and everyone who took part in interviews, you deserve my salutation.

ABSTRACT

A banking sector with improved bank performance and greater probability of bank survival creates a fertile ground for effective financial intermediation and economic growth. The main point of enquiry of this research was to unveil factors influencing survival and performance of Zimbabwean commercial banks after the adoption of the multiple currency exchange rate system. The study sought to draw insights on the financial and marketing strategies that are being employed by commercial banks. The other objective was to understand how commercial banks are mobilising deposits in the dollarized economy. An exploratory research design was adopted to accomplish most of the research's objective. However, an explanatory research design was also adopted to complement the exploratory research in determining factors influencing variations in bank performance. Primary data was collected using interviews and questionnaires with head treasury, head credit risk, head marketing, head finance and head branch operations from twelve commercial banks that met the criterion of full scale operation since 2009. Secondary data was obtained from annual financial statements of banks under survey. Descriptive statistics were used to analyse the data with the aid of an econometric package (Stata 11) to analyse the determinants of bank performance. The research findings revealed that commercial banks are surviving by relying on offshore lines of credit, foreign direct investments, and deposits for their financing. It was also established that ownership, stock exchange listing, capitalisation, and being a membership of a bank holding company (BHC) is crucial for bank survival. From the survey, surviving banks are feeding on salary based loans, which have a low probability of default. In addition, banks have resorted to Corporate Social Responsibility (CSR) and rebranding activities to regain public confidence and improve deposit mobilisation. Results from a Generalised Least Squares (GLS) panel data regression revealed that bank performance in the multiple currency is determined by bank size, non-performing loans, capital adequacy, and the loan to deposit ratio. Average lending rate, inflation, and management efficiency were found to be statistically insignificant in influencing bank performance. The researcher conclude that bank survival and performance can be threatened by liquidity challenges and non-performing loans. Therefore, banks should be innovative, desist from overreliance on interest income, and create partnerships with foreign banks or companies to access cheaper financing. The government should recapitalise the central bank to resume its function as a lender of last

resort to ease liquidity challenges. A credit reference bureau should be set up to address non-performing loans problems.

LIST OF ACRONYMS

ASPEF	Agricultural Sector Production Enhancement Facility.
CBZ	Commercial Bank of Zimbabwe
CRBs	Credit Reference Bureaus
ESB	Economic Stabilisation Bonds
FSSB	Financial Sector Stabilization Bonds
FDIs	Foreign Direct Investments
IMF	International Monetary Fund
LOLR	Lender of Last Resort
MOF	Ministry of Finance
MOU	Memorandum of Understanding.
OMO	Open Market Operations
RESET	Regression Specification Error Test
SRR	Statutory Reserve Ratios
SOMB	Special Open Market Bill
RBZFB	Reserve Bank of Zimbabwe Financial Bills
RBZ	Reserve Bank of Zimbabwe
ZTB	Zimbabwe Treasury Bill.

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CHAPTER ONE: INTRODUCTION

1.1 Introduction

Banks are involved in the pooling and allocation of financial resources across productive sectors of the economy. A sound and profitable banking sector is therefore capable of resisting to negative shocks and can contribute immensely to economic growth (Athanasoglou et al, 2005). Besides that, bank owners engage in banking business in order to earn profits and as such, a bank that performs well can reward its shareholders commensurately. In this regard, this research seeks to unveil various strategies that have been adopted by Zimbabwean commercial banks in order to sail through the challenges that characterised their operating environment since the adoption of the multiple currency exchange rate regime.

This chapter lays the foundation of this research in that it introduces the research topic to the reader, outlines the background to the study, the statement of the problem as well as the main research objectives and research questions. The significance and scope of the study as well as the limitations to the study will also follow thereafter. Included also in this section is the definition of key terms and the major assumptions made to the study. Lastly, the organisation of the research will be presented.

1.2 Background to the study.

Banks in Zimbabwe experienced a harsh operating environment during the country's period of economic deterioration from 2000 to 2008. According to Reserve Bank of Zimbabwe (RBZ) statistics, Zimbabwe's year on year inflation rate rose to 59% in 2000 from 58.5% recorded in 1999. Inflation started increasing rapidly during the period 2002-2007 where it rose from 71.9% in 2001 to 66 212% in 2007 (RBZ, 2008). By July 2008, inflation had reached an abnormal level of 231 150 889% (RBZ, 2009). The magnitude of the economic contraction was also echoed by the decline in the country's output from 7.1% in 1990 to -7.3% in 2000 (RBZ, 2000). Hyper-inflation made it difficult for businesses to remain afloat and for ordinary Zimbabwean citizens to make ends meet in an economic environment where the official currency had substantially lost its value (Masaka, 2013).

The composition of banking sector deposits to total liabilities declined from 58% in December 2003 to 42% in December 2004 (RBZ, 2004). The decline in the proportion of time deposits to total deposits revealed the shift by investors, from long to short term investments given galloping inflation that characterised the economy during 2003 and the first half of 2004 (RBZ,2004). High inflation saw the newly appointed Reserve Bank of Zimbabwe (RBZ) governor adopting a tight monetary policy stance in December 2003 in an effort to tame inflation (IMF, 2004). This saw the introduction of the Zimbabwe Treasury Bill (ZTB) and Open Market Operations (OMO) bills, which were meant to mop up excess liquidity. Because of a tightening monetary policy, inflation, which had reached 623% in January 2004, decelerated considerably to approximately 130% by the end of 2004 (RBZ, 2007). However, these measures drove up interbank rates, causing stock and real estate prices to plunge and putting significant stress on the banking system (Kairidza, 2009).

In the first quarter of 2004, the central bank raised interest rates to 5,242% per annum in March (IMF Staff Report, 2004). The abrupt increase in interest rates sparked liquidity challenges to the banking institutions, some of which were unable to meet depositors' withdrawals. Liquidity challenges led to the fall of Century Discount House, a subsidiary of ENG Asset Management Company, thus triggering a contagion amongst many indigenous banks that were connected to Century Discount House (Makoni, 2006). In the light of this crisis, which threatened monetary stability, the central bank came to the rescue of the ailing institutions in the form of the Troubled Bank Fund (TBF) at a concessionary rate of 30% (IMF Staff Report, 2004).

Moreover, banking sector asset quality deteriorated as reflected by the increase in the ratio of adversely classified loans from 4.43% to 18.52% (RBZ, 2004). The deterioration in asset quality was attributed to the adverse effects of high interest rates that characterised the first half of 2004, which rendered it difficult for some borrowers to service their loans (RBZ, 2004). Changes to the monetary policy stance between 2003 and 2004 and saw other banks being engaged in speculative practices (Kwesa 2009). This saw the central bank putting nine financial institutions under curatorship as these institutions were being involved in non-permissible activities, diverting from their core business to speculative practices in the foreign exchange deals in a bid to survive in an inflationary environment (RBZ, 2006). In order to improve the resilience of the banking sector, the minimum capital requirements were raised from Z\$500 million to Z\$10 billion in September 2004 (IMF Staff Report, 2004). This

development again, brought pressure on banks to comply at the background of funding challenges orchestrated by a contractionary monetary policy and galloping inflation.

In 2006, the RBZ embarked on a mission to restructure government debts by eliminating short-dated instruments lengthening them to a tenor of 180 days to 365 days and the issuance of Consumer Indexed Bonds was also witnessed (GCR, 2007 ; Robinson, 2006). Statutory Reserve Ratio (SRR) was also hiked to as high 60%, as the RBZ continued with its aggressiveness to curtail speculative lending. The increase in statutory reserve requirements (60 percent of demand deposits) was an impediment to the banking sector's ability to balance their deposit and lending portfolios to support economic growth (IMF Staff Report, 2005; Muñoz, 2007). The increase in statutory reserves discouraged lending and most banks found it challenging to live on limited income streams. Banks were also required by the Reserve bank of Zimbabwe to subscribe to Financial Sector Stabilization Bonds (FSSB) and Economic Stabilization Bonds (ESB) in proportion to their balance sheets (Chikoko and Pierre, 2012). This development locked bank funds for longer periods, thus affecting financial intermediation.

Virtually nothing in terms of lending was being undertaken by banks in Zimbabwe during 2006 to 2008 as banks failed to access both onshore and offshore lines of funding as the central bank continued to maintain its tight monetary stance. The only lending activities, which were taking place, was initiated by the central bank's programme to fund agriculture under the Agricultural Sector Production Enhancement Facility (ASPEF) at concessionary rates. In 2008, the central bank continued hiking its accommodation from 4500%-5000% (secured accommodation) and 4000%-4500% (unsecured) showing its unwillingness to extend funds to banks (RBZ, 2008). The increase was introduced to discourage speculative borrowings, suppress inflationary pressures and to encourage banks to mobilise deposits from the public and among themselves.

In an effort to curb hyper-inflation, the government of Zimbabwe adopted the multiple currency system in 2009 (MOF, 2009a). This development saw the suspension of the Zimbabwean dollar as a legal tender and the incorporation of the Pula, Rand, and US dollar as major trading currencies. After the introduction of the multiple currency system, the consumer price index was substantially brought down leading to an inflation rate that remained within single digits between 2010 and 2012: (3.1%, 3.5%, and 3.7% respectively)

(ZimStats, 2012). A survey by IMF (2010) revealed that the multiple currency exchange rate system re-ignited financial intermediation in the country and bank performance was boosted during the new regime. The level of bank deposits and lending was also improved (RBZ, 2010). Nonetheless, achievements brought by the multiple currency were offset by the highly short-term nature of the deposits prohibiting long-term lending (Kwesa, 2009). The savings behaviour of individuals depends on the interest paid on deposits, the higher the deposits rates, the more funds are saved and the more profound the intermediation process. The country is experiencing low interest rates on deposits of about 0.2% against lending rates of above 28% per annum plus bank charges, which clearly discourage savings (RBZ, 2009).

Despite increase in loans and advances from 2009 to 2012, foreign banks such as Barclays and Stanbic remain passive in their lending approach as indicated in their loan to deposit ratios (in absolute terms) as at 30 June 2009. Barclays had deposits amounting to US\$74 039 247 and advances of US\$ 3 080 947.97 while Stanbic had total deposits of US\$132 125 035. 41 and advances amounting to US\$19 390 711.86 (RBZ, 2009).

Though the multiple currency system brought confidence in the banking sector and a considerable increase in deposits was witnessed from 2009 to 2012, most of the deposits remained largely transitory in nature and as such banks failed to advance capital expenditure loans to corporates (RBZ, 2013).

As at August 2011, the ratio of demand deposits, long-term deposits, and short-term deposits was 59%, 10% and 32% respectively being an indication that even in the multiple currency era, the savings culture in Zimbabwe is still very low.

Liquidity challenges continued to be a major setback owing to the absence of the lender of last resort (LOLR) facility and a non-functioning (dormant) interbank market, limited access to offshore lines of credit and limited availability of money markets instruments such as Treasury Bills (TBs) (Chikoko, 2012). To make matters worse, in July 2013 the government signed a memorandum of understanding (MOU) with banks to scrap off bank charges on accounts balance of US\$800 and below (MOF, 2013). Historically, non-interest income contributed the highest proportion of revenue for most banks and as such, the MOU became a major blow on banks.

Evidence on the challenges being faced by some banks can also be drawn from other bank, which failed even after dollarisation. In June 2011, Renaissance Merchant Bank was placed under curatorship. The RBZ's audit at the bank unearthed severe liquidity challenges and poor corporate governance practices as the major causes of the failure (RBZ, 2012). In addition to that, RBZ determined that chronic undercapitalisation, perpetual losses, deficiencies in internal control and abnormal loan losses from insider and related party vulnerabilities accounted for the bank's demise.

Precisely a year after the Renaissance's failure, Interfin Bank Limited was also placed under recuperative curatorship in June 2011 (RBZ, 2012). The RBZ determined that the bank was no longer sound and safe and it was in the interest of the banking public for the bank to discontinue its operations. The bank was found to be having high levels of non-performing loans, gross abuse of corporate structures, poor board and management oversight and prolonged liquidity difficulties (RBZ, 2012). In addition, Genesis Merchant Bank willingly surrendered its operating license following failure to raise required capital (RBZ, 2012).

In December 2013, Trust Bank had its operating license cancelled (RBZ, 2013). The bank was heavily undercapitalised with a core capital of US\$1.9 million. Apart from that, the bank had been continuously posting losses and had accumulated losses amounting to US\$18.01 million since its inception. The institution had a poor loan book, which then culminated into terrible liquidity problems. The RBZ also revealed that Trust Bank Limited had inadequate working capital and serious abuse of depositors' funds, which made the bank to be unsafe.

However, there are some banks, which managed to sustain their existence, but their performance is unpleasant. These banks include Allied Bank (formerly ZABG) and MetBank. During the period ending December 2012, Allied Bank and MetBank reported losses amounting to US\$4.1 million and US\$5.6 million respectively (Allied Bank Annual Report, 2012; MetBank Annual Report 2012).

Amazingly, despite hardships in the operating environment, banks such as Barclays Bank, CBZ Bank, Agribank, FBC Bank, BancABC, Stanbic, ZB Bank, Standard Chartered, NMB Bank, MBCA, EcoBank, and Steward Bank continue to thrive. Tracing back from 2000, Barclays bank have been profitable except for 2002 where it recorded a loss of Z\$1000. According to Barclays Bank of Zimbabwe Annual Report (2001), the bank posted an inflation adjusted profit after tax (PAT) of Z\$ 9356 million in 2001 and Z\$2245 million in 2000. In 2004 the bank improved its inflation adjusted profits to Z\$162 billion from a loss of

Z\$39 billion which it had recorded in 2003 (Barclays Bank annual Report, 2004). The year 2005 and 2006 were bad trading periods for Barclays as indicated by losses amounting to Z\$1,159 million and Z\$6,282 million respectively. The entity managed to survive the inflationary turmoil that rocked the nation of Zimbabwe in 2008. The attributable earnings for 2008 stood at Z\$151 063 163 964 representing a 70,30cents earnings per share. In 2011, the bank's profit after tax went up to US\$ 1.4 million from US\$ 1.3 in 2010 and its loan book and deposits grew up by 36% and 18% respectively (Barclays Bank Annual Report, 2011). The bank's liquidity ratio closed the year 2011 at 69% ahead of the regulatory minimum of 30%. This ratio is indicative of a safe liquidity position despite gross liquidity challenges that are haunting other banks.

In 2012, the bank posted a profit after tax of US\$ 2.1 million representing a growth in per earnings per share to 0,10 cents from 0,07 cents in 2011. Apart from that, Barclays Bank increased its loan portfolio by 57% in 2012. Nevertheless, the ratio of impaired assets remained well within 1% reflecting the quality of the loan book (Barclays Bank Annual Report, 2012). The bank's net interest income grew by 13, 7% whilst non-interest income increased by 10, 7% reflecting progress in the bank.

In addition to Barclays, CBZ, Standard Chartered, Stanbic, BancABC and CABS Bank are also realising increased earnings. In 2002, CBZ experienced a decline in profitability from Z\$1211.7 million in 2001 to a loss of Z\$1530.1 million. As for the full year ending December 2012, CBZ bank recorded the highest after tax profit of US\$31.1 million which represents a growth taking into account that during the half year ending June 2012, the bank had posted attributable earnings equivalent to US\$13.1 million (CBZ Bank Annual Report, 2012). Other banks' profits were standing at US\$27.3 million (CABS), US\$17.4 million (Standard Chartered), US\$13 million (BancABC) and US\$17.2 (Stanbic). In 2009 Standard Chartered Bank had recorded a loss of US\$3 724 833 but later on improved to US\$8 377 764 in 2010 and US\$21 989 768 in 2011.

One becomes curious to know the factors that can reconcile this discrepancy given that both of these banks are operating under similar circumstances. Therefore, this research aims to explore strategies that have influenced bank success regardless of a challenging operating environment in which other players are finding it difficult to survive.

1.3 Problem statement

Banks in Zimbabwe have experienced a challenging operating environment since 2000 to 2014. The environment has been characterised by hyper-inflation, liquidity problems, and tight monetary policy stances, shortage of foreign currency and high levels of bad loans among other challenges. The average ratio of non-performing loans to total loans for the entire banking sector is currently standing at 15, 92% as at 31 December 2013 and the central bank has been concerned over attendant liquidity challenges which have manifested themselves in form of constrained bank lending capabilities. Despite this, some banks have been posting solid earnings and one would want to know factors influencing progress in those banks.

1.4 Research objectives

The main intention of this research is to unveil factors influencing commercial bank survival in Zimbabwe given a challenging operating environment post dollarisation.

However, in its pursuit to attain its primary objective, the research seeks also to achieve the following sub-objectives:

- to unveil strategies that are being employed by commercial banks to retain customers.
- to determine the measures taken by commercial banks to mobilise deposits.
- to find out financial strategies being employed by commercial banks in Zimbabwe.
- to analyse factors influencing bank performance from 2009-2013.

1.5 Research Questions

The research aims to provide answers to the following questions

- how are commercial banks retaining their clients since 2009?
- which strategies are being adopted by commercial banks to mobilise deposits from the public?
- which funding strategies are being implemented by commercial banks in the multiple currency regime?
- what has influenced bank performance from 2009-2013?

1.6 Significance of the study

Several researches have been done on the challenges faced by Zimbabwean banks. Chikoko et al. (2012) adopted a survey research design to unveil sources of non-performing loans in commercial banks after dollarisation. Coomer (2012) investigated on the impact of hyperinflation on the economy of Zimbabwe. Nevertheless, to the best of the researcher's knowledge, nothing on the factors that have accounted for commercial bank survival in Zimbabwean has been documented.

Other banking institutions will have something to borrow on how to cope with common banking sector challenges. By presenting a pool of possible solutions to bank problems, this research provides bank management with various options to tackle present and future difficulties.

Stakeholders such as investors, suppliers, and customers can also benefit from this research. Survival strategies gathered in this research will prolong the existence of banking entities such that stakeholders will continue to derive value from banks. Bank failures and collapses have a negative social impact to the general populace and promoting bank survival is a positive development to depositors.

Furthermore, regulators are interested in banking sector stability will benefit from this research. Bank failures threatens banking sector stability, hence solutions to bank survival will reduce bank troubles thereby relieving bank supervisors from nuisances associated with bailing out troubled banks.

Lastly, solutions suggested in this research will ensure bank survival that will then promotes financial intermediation, a key to economic growth. Incessant bank failures erode public confidence in the banking sector thus lowering savings, which are needed for investment in the productive sectors of the economy.

1.7 Scope of the Study

The study will cover the period from 2009 to 2013. This period posed most challenges to the banking sector because of weakening macro-economic conditions. It is during this period that saw a new dispensation of currency reforms being implemented after a decade economic meltdown.

The study will focus on all registered commercial banks that have been in operation from 2009 to the time this research was undertaken. In order to get full insights on the survival strategies, the research will be mainly conducted in Harare where most commercial banks are headquartered. Branches will not be considered because most corporate strategies are crafted at head-offices and are submitted to branches for implementation.

1.8 Limitations

- Respondents considered information concerning survival strategies as highly sensitive and confidential as providing such will expose banks to imitation and duplication of ideas by competitors. However, the research liaised access by convincing respondents that the data is being gathered for academic purposes only.

1.9 Assumption of the Study

- The use of multiple currencies in the economy will persist.
- All banks pursue similar objectives.
- Financial statements for bank institutions are governed by similar disclosure requirements and are not victims of creative accounting.
- All respondents will provide honesty, factual, reliable, and realistic information free from bias and fear of victimisation.

1.10 Summary and Organisation of the study

This chapter has nicely presented the research's main area of focus. A background of circumstances that prevailed in the Zimbabwean economy and the challenges to the banking sector thereof from 2000 to 2013 has been highlighted. The statement of the problem, the key research objectives, research questions, significance of the study, important definition of terms, assumption made to the research and the limitations of the study were outlined in this chapter. The chapter has laid a strong foundation upon which an analysis on the strategies that promote bank survival will be centred. The remainder of this study is going to be sequentially organised as follows: Chapter 2 will provide in depth theoretical and empirical views concerning strategies that can be employed to sustain bank survival and factors that determine bank performance. Chapter 3 will specify how the researcher is going to meet the research objectives. The research will make use of an explanatory research design in conjunction with an exploratory research approach. Both quantitative and qualitative

information will complement each other in pursuing the main agenda of this research. Chapter 4 refers to data presentation, analysis, and interpretation of findings through descriptive statistics, other measures of central tendency, and measures of dispersion derived from the use of a statistical package. Chapter 5 will sum-up the entire study through concluding remarks, recommendations, and suggestions on what needs to be done by future researchers.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In order to come up with proper recommendations on how banks can survive in stressful moments, it is prudent to review literature on some potential sources of bank survival. Therefore, this chapter will reveal various strategies that can be employed by banks in solving several challenges in their operating environments. After presenting empirical review of literature on bank survival strategies, the chapter will also embark on reviewing theoretical and empirical underpinnings on factors that determine bank performance because it is only when banks are performing well that they are able safeguard their existence. The main intention for reviewing literature is to identify gaps in the study on bank performance and survival for the purpose of future researchers.

2.2 Bank Survival

Bank survival is critically important for the stability of the financial system and economic growth. Daley et al. (2008) argued that bank failures are worrisome and are more disastrous in developing countries where banks play a more pronounced role in financing economic sectors. Furthermore, Sahuti and Mili (2010) pointed out that the reason behind strict bank

regulation is that bank distresses have a magnified adverse impact on economic activities than other business' failures.

Several bank failures have been witnessed almost everywhere around the globe. In Kenya two local banks were closed or taken over between 1984-1989 while in Nigeria four banks were liquidated and thirteen others taken over by the Central Bank of Nigeria (CBN) in 1994 and 1995 (Masunda, 2013). In addition to that, banks such as Northern Rock became at the verge of collapse due to funding crisis caused by a market credit freeze during the subprime mortgage crisis.

Banks usually fail when they become incapable of meeting their obligations to creditors and depositors. Brownbridge (1998) cited macroeconomic instability, insider lending, lending to high risk borrowers and poor liquidity-risk management strategies as some of the causes of bank failures. Therefore, for banks to survive, they need to be able to meet their obligations in time and perform their lending function for income generation.

In addition, Apea and Sezibera, 2002) states that fraud cases may cause banks to fail as in the case of Banco Ambrosiano and Hersatt. For that reason, it is of paramount importance for bankers to observe good corporate governance practices and improve internal control systems to immunise themselves against failure.

Therefore, the survival of individual banks is influenced by various strategies that banks adopt in order to cushion themselves against factors threatening their chances survival.

2.3 Survival Strategies

A strategy is a management's game plan for strengthening the organization's position (Thompson et al., 2010). Thus, the survival and future of an organisation is in the hands of those who are responsible for crafting the operational roadmap of individual firms. Strategies are designed to address current and expected challenges the main aim being to keep the organisation on its feet. Banking institutions are confronted by various challenges in their day to day operations. Some of the challenges emanate from within the organisation but some of them are posed by the external environment. Nevertheless, irrespective of the source of challenges, banks need to develop strategies to deal with those challenges.

2.3.1 Branch Banking and Diversification

Wheelock (1995) and Calomiris (2000) find empirical evidence of the importance of branch banking in promoting bank survival. In U.S, states and regions that had greater bank branching experienced lower bank failure, indicating that due to branching, more stable banking system are created. Gart (1994) suggests that inter-state branching alleviated losses and bank failures during the 1980s Savings and Loan crisis. Moreso, Grossman (1994) finds support those countries that had banking systems with greater branching during the Great Depression were less affected by the banking crisis. More to it, the 1994 Riegle-Neal Inter-state Banking and Branching Efficiency Act (IBBEA) was launched upon the need to benefit from greater geographic diversification that would bring efficiency and stability of the banking system (Shiers, 2002). The idea that bank branching improve bank stability is based on the fact that heavy losses tend to have less impact on a bank that is engage in business in a wider geographical coverage. Thus, the higher the number of depositors, the more varied their businesses and the less likelihood that withdrawals will be demanded equally at the same time giving a bank the leverage to rearrange liquidity positions.

However, Calomiris and Mason (2000) and Carlson (2004) analysed individual bank-level data during the Great Depression and got an opposite result altogether, instead, branch banks are likely to be instable than unit banks. The authors argued in favour, citing that banks with branches hold less capital reserves than unit banks, thus their inability to weather unexpected shocks.

2.3.2 Encouraging Deposits

Mangudya (2009) advocated for the need of commercial banks to encourage deposits in order to survive during difficult times. As deposit taking financial intermediaries, banks should aim at encouraging the mobilisation of deposits because it is only through pooling of deposits that they are able to advance loans from which income is derived for their survival. In difficult times such as hyperinflation, it is worthless for the public to make deposits that were losing value continuously. Therefore, in order to lure public deposits, banks should offer competitive and attractive deposits rates given limited sources of liquidity.

However, encouraging deposits calls for extensive marketing programs to win the hearts of depositors given fierce competition.

2.3.2.1 Surviving Adversities: Corporate Social Responsibility

Being socially responsible is one of the mechanism that banks are using in order deal with low deposit base. Corporate social responsibility (hereafter CSR) is based on the argument that corporates should not only exist to make profits, but have a part to play in finding sustainable solutions to the society's welfare (Dwight, 2003). CSR encompasses things like sponsoring sporting activities, offering scholarships for the less privileged people of the society, cleaning campaigns, as well as delivering health and safety lessons to the society. By so doing, banks can preserve the much-needed corporate image for their survival (Nhondo, 2013).

2.3.3 Establishing Offshore Lines of Credit

Bogetic (1999) carried out a study in Panama, a country that was officially dollarized. Bogetic discovered that Panama banks resorted to offshore lines of credit to fund themselves. According to Kurt Schuler (2000), one of the main challenges of a multiple currency regime is loss of the apex bank lender of last resort facility. The central bank is known for offering an accommodation window for banks, which will be facing acute liquidity needs. However, after dollarisation, central banks are expected to continue advancing liquidity. According to Ozsoz (2009), local banks responded to liquidity challenges by establishing lines of credit with foreign banks, which had branches in Panama. Similarly, Quispe-Agndi (2002) argued that the establishment of foreign lines of credit by banks in Ecuador and El Salvador improved the volume of lending which had deteriorated during hyperinflation. Therefore, it is prudent for banks to establish alliances with foreign banks to access cheaper funds that they can therefore lend to generate income to live by.

Calvo and Guillermo (1999) carried out a study in Argentina and the main aim was to establish the financial strategies adopted by Argentinian banks in order to survive in the dollarized economy. The results of the research revealed that the only way in which the banks survived was through establishing contingent lines of credit.

2.3.4 Resorting to Equity Finance

As deposit taking financial intermediaries, banks usually rely on deposits to make loans from which income is derived for the bank to continue operating as a going concern. However, it is vital for shareholders to contribute their funds in the bank to improve the base for loanable funds in the absence of significant deposits because deposits tend to be depressed in hyperinflationary environments. According to Mishkin (2009), equity is the capital that can

be raised by issuing shares to the public wishing to invest. An empirical evidence the importance of equity financing in alleviating funding problems is in respect to Ecuadorian banks which issued rights shares in order to survive the financial crisis that hit the economy prior to dollarisation (Moreno-Villalaz, 1999). Therefore, it is clear in this case that equity funds can play a significant role in revitalising bank survival.

2.3.5 Mergers and Acquisitions

Mergers and acquisitions (hereafter M/E) have been a common strategy to survive not for manufacturing industry only, but for banking firms also. Weston et al. (1990) define mergers as transactions that form one economic unit from two or more previous ones. Weston et al. (1990) identified that mergers exist in three forms. A merger can be horizontal, vertical, or conglomerate. If the merger involves two or more firms of different businesses, it is a vertical merger; if the firms are in unrelated business, it is a conglomerate and if the firms are in similar business, it is a vertical merger.

According to (Sahuti and Mili, 2010) banking distress is generally the result of banking insolvency and undercapitalization, and thus to solve financial distress, banks may engage in mergers and acquisitions. Umoh (2004), mergers and acquisitions are expected to address the problem of distress among insolvent banks without an initial resort to liquidation. DeYoung (1997) suggest that mergers and acquisitions have been successful in improving bank efficiency and profitability in MENA countries.

2.3.5 Product Innovation

For banks to enjoy a competitive advantage in the market, they need to be creative in coming up with new products designed to ensure that customers' needs are being met always. Omuodo (2003) asserts that over reliance on interest, income has put pressure on the profitability of commercial banks; therefore, there is need for banks to come upon with alternative income streams in order to survive. National Industrial Credit Bank (NIC) of Kenya introduced new products to broaden its revenue sources. Omuodo (2003) adds that the bank came up with new products to diversify its revenue sources and expand the scope of its activities.

2.4 Bank Capitalisation and Survival

Several bank legislations around the globe have placed emphasis on adequate bank capitalisation to ensure the stability of the banking sector. According to Repullo, (2004), capital act as a buffer to absorb shocks related to sudden decline in the earnings of a bank. Moreover, banks with higher capitals can compete more effectively for loans and deposits (Calomiris and Wilson, 2004). As such adequately capitalised are more immune to external shocks thereby increasing their survival probability. Similarly, from the screening-based theory of Coval and Thakor (2005), capital is essential for the sustenance of banking institutions because it induces higher borrower screening and monitoring. Nonetheless, Mehran and Thakor (2011) viewed the importance of bank capital from the incentive-based theory. Banks that are largely financed by equity have greater ownership commitment that reduces moral hazard manifesting itself in form of deliberate risk taking.

2.5 Bank Performance

Bank performance is an indicator of how well a bank is meeting the objectives for which it was established. Bank owners are interested in the increase of their wealth while regulators and government are concerned with the ability of a bank to roll out its duties of financial intermediation for enhanced economic growth. It is therefore important to measure bank performance.

2.5.1 Importance of Measuring Bank Performance

Berger and Humphrey (1997) postulate that the most important reason of measuring bank performance is to distinguish banks that are performing well from those which are doing badly. Casuet al, (2006) also argued that bank regulators screen banks on the basis of their solvency, liquidity and overall performance. Therefore, measuring bank performance is crucial in allowing regulators to estimate the timing of supervisory intervention and to detect possible problems before hand. In addition, investors are also concerned about bank performance. Their decision on whether to invest in a particular bank is an issue of performance.

2.6 Measuring bank Performance

Several indicators of bank performance have been used. According to Ahmed (2003), Net Interest Margin (NIM), Return on Assets (ROA), and Return on Equity (ROE) are widely

employed to measure performance. However, there are diverse opinions on the most efficient indicator of bank performance. For instance, Goudreau and Whitehead (1989) and Uchendu (1995) believed that the three ratios namely, NIM, ROE, and ROA are appropriate indicators of bank performance. Hancock (1989) used only ROE to measure performance whilst Odufulu (1994) used only the gross profit margin in measuring profitability. On the other hand, Akinola (2008) encompassed Profit before Tax (PBT), Profit after Tax (PAT), ROE, Rate of Return on Capital (ROC) and ROA in measuring performance. Sanni (2009) used Earnings per Share (EPS) and Revel (1980) used interest margin to determine the performance of US banks. Therefore, the three main measures suggested by Uchendu are explained below.

2.6.1 Return on Equity (ROE)

ROE is the ratio which shows how much profit has been earned in relation to the amount that has been invested by owners of the bank. In other words, it is the amount of return each shareholder will receive from the investment made in the firm. Khrawish (2011) explains the ROE as the ratio of Net Income after taxes divided by total equity capital. ROE depicts managerial efficiency in utilizing investor's funds. Therefore, a bank with a higher ROE is said to be capable of generating more income per dollar investment by equity holders.

2.6.2 Return on Assets (ROA)

It is a ratio of Income to its total asset (Khrawish, 2011). It measures the efficiency of management in utilizing company assets in generating income. Wen (2010), higher ROA shows the effectiveness of the firm in making use of its resource endowments. Therefore, a lower ROA shows inefficient use of assets implying that either some assets are lying idle or are outdated and need refurbishment. In the banking sector a lower ROA may imply branch setups which are operating below capacity. Dietrich and Wanzenried (2011), banks with a lower leverage ratio (higher equity) usually report a higher ROA but a lower ROE. Conversely, the ROE neglects the higher risk that is related with a high leverage and the influence of regulation on leverage. Though gearing is associated with tax advantages, it exposes a firm to bankruptcy costs.

2.6.3 Net Interest Margin (NIM)

NIM measures the difference between the amounts paid by the bank to its lenders (creditors/depositors) and amount received by the bank from its borrowers (debtors) in relation to the amount of their assets that are capable of generating income. Put in other way, NIM is the

gap that exists between net interest income and interest expense as fraction of interest earning assets. NIM is frequently expressed as a percentage of what the bank is earning on its loans in a specific period less what the bank has paid to its creditors divided by the average amount of assets from which the interest income has been derived during that period. Gul et al. (2011) defined NIM as the net interest income divided by total earnings assets. Whilst higher NIM is a reflection of greater performance in interest earning assets, according to Khrawish (2011), a higher net interest margin could reflect riskier lending practices associated with substantial loan loss provisions.

Nevertheless, the use of financial ratios can be misleading when financial statements have been fabricated to reflect desirable scenarios. Apart from that, when used alone, financial ratios are meaningless and for them to portray meaning, they should be accompanied by comparative financial statements. There is also possibility of bias due to off-balance-sheet activities as suggested by (Athanasoglou et al., 2005).

2.7 Determinants of Bank Performance

According to Aburime (2005), the determinants of bank performances can be categorised into bank specific (internal) and macroeconomic (external) factors. Internal factors are individual bank features. These factors are determined internally by management and board of directors. Internal factors vary from one institution to the other. On the other hand, macroeconomic factors are those factors that are outside the bank's spheres of influence. Haron and Wan (2004), alludes that external variables are variables outside the control of bank management. External variables, exists in a wider business environment in which the bank operates. Olweny and Shipho (2011) argue that MP (Market Power) theory assumes that the performance of a bank is a function of external market factors, while the ES (Efficiency Structures) assumes that bank profitability is influenced by internal efficiencies or inefficiencies. Therefore, the performance of a bank depends on the conditions prevailing in both the micro and macroeconomic environment. It should be emphasised that, conditions in both the external and internal environment are volatile and take different shape over time calling for constant review.

2.7.1 Internal Factors

According to Dang (2011) the CAMEL framework has been frequently used by researchers as a proxy for bank specific factors. CAMEL is an acronym that stands for Capital Adequacy, Asset Quality, Management Efficiency, Earnings Ability, and Liquidity. Other firm specific variables may include innovation capacity and firm size.

2.7.1.1 Managerial Efficiency

Management is a main determinant of bank performance. Managers are the main employees in firms and have the responsibility to influence the performance of their subordinates. The success of an organization, therefore depends on the efficiency of management in deploying the firms' resources for income generation and reducing expenditure. The capability of management to utilize the firm's resources can be measured by financial ratios. According to Sangmi and Nazir (2010), one of the ratios used to measure management efficiency is the operating profit to income. It follows that, the higher the operating profit to income ratio, the more efficient the management is in terms of operational efficiency and income generation. The other proxy used to measure management quality is the expenses to asset ratio. The ratio is expected to be negatively related to bank profitability. In this case management efficiency is regarded as a major variable in explaining firm profitability because of the influence that it has in determining the level of operating expenses (Athanasoglou et al. 2005). However, the ability of management to positively influence bank profitability depends on whether they have the necessary expertise.

2.7.1.2 Bank Size

The size of a bank is helpful to benefit from the possible economies of scale. Large banks can save their cost especially the fixed cost (research and development). Banks that are significantly large in size can pay less for their inputs and can have access to cheaper sources of funding. Increasing size has a positive effect on profitability (Kaufman, 1992). Nevertheless, banks that become extremely large experience negative size-effects owing to administrative and other reasons. However, excessive increase in bank size might end up demonstrating a negative relationship between size and performance. This is due to agency costs, the overhead of bureaucratic processes, and other costs related to managing huge firms (Stiroh and Rumble, 2006; Pasiouras and Kosmidou, 2007). Hence, the size-performance relationship should be non-linear.

2.7.1.3 Capital Adequacy

According to BCBS (2008a), bank capital can be defined as a cushion that protect bank customers and shareholders from unexpected losses that may arise as the bank assumes risks in its day to day trading and dealing. This is backed by Athanasoglou et al. (2005) who put forward that capital refers to the amount of owners' funds, which support the bank's business and protect the bank against adverse shocks. Diamond (2000) also argues that capital reduces the possibility of bank distress. Capital adequacy reflects the scale of ability of a financial institution to withstand shocks in its balance sheets (IMF, 2011). Capital gives guarantee that the bank will be liquid in the long-run because deposits are withdrawn on demand and are prone to bank-runs. Therefore, capital adequacy helps banks to underwrite more business, thus profitability. Dang (2011), the capital adequacy for a bank is measured by the capital adequacy ratio (CAR). The CAR is the ratio of total equity to assets (risk-weighted) and it measures the internal strength of the bank to withstand adverse shocks arising in the course of business. Hassan and Bashir (2003) submit that there is a positive relationship between performance and capital adequacy because well-capitalised banks face less bankruptcy costs which reduces their cost of funding, therefore profitability. Adequately capitalised banks have access to cheaper sources of funds. Capital adequacy also enables banks to take full advantage of their profitable growth prospects (Akintoye and Somoye, 2008). A well-capitalised bank is in a position to exploit every investment opportunity that arises thereby improving its performance.

2.7.1.4 Liquidity

Bank liquidity is another factor that can significantly influence financial performance. Liquidity can be defined as the ability of a bank to meet its obligation as and when they fall. However, according to BCBS (2000), liquidity is the ability of a bank to fund the increase in assets and to meet its short term obligations as and when they become due Samad (2004), described liquidity as the lifeblood of a bank. Dang (2011) asserts that adequate liquidity level is positively related to profitability. Cecchetti (2005) argues that, the more liquid a firm's asset, the less likely the firm is to experience problems in meeting short term obligation. However, high liquidity positions are opportunity cost positions as implied by Cecchetti (2005) who defined liquidity as the easy with which assets can be turn into money or cash. Therefore, there is a trade-off between liquidity and profitability.

A liquid bank is less likely to be insolvent but tend to lose out revenue in form of interest on investments. The liquidity of the bank can be measured by the loan to deposit ratio and the liquid asset ratio. The higher the loan to deposit ratio or the lower the liquid asset ratio, the lower the probability of a bank to be able to meet demand in loans (Shen et al, 2009). Both of these ratios have got their own weakness. For example, the loan to deposit ratio ignores other assets other than loans that may also be converted into cash. Moore (2010) asserts that the liquid asset ratio is silent regarding to the flow of funds from increase in loans, decrease, or increase in liability and repayments of loans. Other authors use different financial ratios. Ilhomovich (2009) used the cash to deposit ratio to measure the liquidity for banks in Malaysia. On the other hand, Vodova (2011) used the liquid assets-total assets; liquid assets-deposits plus short term borrowing; loans-total assets and loans-deposits+ short term financing to measure bank liquidity. Though there are various proxies for liquidity, the major concern is on the impact of liquidity on bank performance. Molyneux and Thornton (1992) concluded that there is a negative correlation between liquidity and profitability. However, Said and Tumin (2011) did not find any link between liquidity and performance for Chinese and Malaysian banks.

2.7.1.5 Asset Quality

This is another important internal determinant of bank performance. Bank's assets comprise of loan advances, fixed assets, investments in the capital market and money market. However, banks derive most of their income in form of interest earned from loans, which they advance to various sectors of the economy. Therefore, the quality of the loan book is responsible for bank performance. The greatest risk facing a bank is the probability that loans will turn to be bad, that is borrowers will not honour their promise to repay (Dang, 2011). For that reason, the ratio of non-performing loans is the best indicator of asset quality. Guy (2011) agrees that the ratio of non-performing loans to total loans has been widely used to measure asset quality. It is therefore the concern of all banks to keep the level of their non-performing loans as low as possible. For this reason, most banks have adopted several techniques to lessen the possibility of credit risk. Most banks have credit policy manuals, which governs how credit is originated, sanctioned, and reviewed in order to minimise loan losses. This is so because higher levels of non-performing loans are detrimental to the profitability of a bank and can threaten bank survival in the long-run. A lower ratio of non-performing loans to total loans reflects a quality portfolio and is most preferable (Sangmi and Nazir, 2010). Non-performing loans are hazardous to the stability of the banking sector.

According to Kroszner (2002), non-performing loans are directly related to bank failures. Aydogan (1990), the asset quality measure reflects the changes in the health of the bank's portfolio, which affects bank performance negatively.

2.7.2 Industry Structure Approach and Bank performance

Under the Industry Structure Approach (hereafter ISA), industry concentration is considered to symbolise market power. ISA uses market structure, which is defined, by the extent of concentration of market shares. In ISA, the roles of both firm size and industry concentration are emphasised (Bain, 1951). In view of that, in concentrated market structures, firms will have market power, as such, they conduct themselves in less competitive ways, and as a result, all firms will make high profits. ISA would predict that an increase in the number of firms operating in a certain industry (high concentration), will lead to competitive conduct, lower price-cost margins and ultimately reduced firm profitability. According to Porter (1981), industry structure is therefore a forecaster of firm conduct and performance. ISA is commonly associated with the Structure-Conduct-Performance (hereafter SCP). The theory tries to explain and predict the performance of firms within an industry because of market structure that influences conduct of firms within that industry (Panagiotou, 2006). The theory is based on the assumptions that there is a steady and causal connection between the three components: structure of an industry, firm conduct, and market performance. Therefore, according to SCP, the anticipated conduct and performance of firms in an industry can be predicted from the structure of an industry.

The SCP theory centres on industry structure as the key determinant of firm performance; thus, some firms will be in high performance industries while others will be in low performance industries (Porter, 1981). Nevertheless, Porter omitted to mention the applicability of the SCP theory in explaining variations in performance of firms in similar industry. With regard to banks, the SCP theory asserts that banks with market power are able to earn higher profits by their ability to charge higher loan rates, pay lower deposit rates, and lower collusion costs (Bain, 1951). The collusion hypothesis supports this intuition. According to the collusion hypothesis, when few numbers of banks control the banking sector, it is easier for them to collude (Goddard et al., 2001). Collusion can then be reflected in high rates on loans, lower deposits rates, higher bank fees, and commissions levied on

customers. Moreover, banks may earn abnormal profits by taking advantage of a large market shares and product differentiation (Shepherd, 1975).

2.7.3 Resource Based View and Bank Performance

The Resource Based View (hereafter RBV), focuses on individual firm-specific attributes (resources) in explaining determinants of firm performance. According to the RBV, firms possess dissimilar resources and performance difference across firms is largely explained by heterogeneity in firm-specific resources (Mahoney and Pandian, 1992). Proponents of the RBV categorised the firm's resources into assets and skills/capabilities. The criterion of classification is based on what the firm owns and what it is capable of doing. Assets are defined as anything tangible or intangible the firm owns' and can use in its process for producing and/or offering products to a market (Sanchez, 2002). Capabilities refer to a firm's capacity to deploy its assets', whether tangible or intangible, to perform some task or activity to improve performance (Teece *et al.*, 1997). Assets and capabilities are a set of resources available for the firm's utilisation in availing services or products to customers. In view of that, the efficiency of a firm is determined by the aggregate productive efficiency of the resources employed by the firm in the process of delivering value to customer, enabling firms with superior resources to produce efficiently than others, (Peteraf, 1993).

The firm's ability to produce efficiently will give it a price-cost advantage than its rivals, hence profitability. Therefore, RBV entails that firm with superior resource endowments are rewarded in form of improved performance. RBV specifies that only resources that are valuable, rare, inimitable, non-transferable, and non-substitutable are capable of generating and sustaining competitive advantage, affording accumulation of superior performance (Crook et al, 2008). Exceptional and difficult to replicate or substitute resources make it challenging for new rivals to compete the resource position, thus enabling performance differences to prevail over time. However, the RBV has been criticised for not accounting for bundles of resource (Black and Boal, 1994). Many researchers have suggested that in addition to intangible resources, tangible resources are complementary resources that help to build bundles of resources, which together contribute to a firm's competitive advantage (Andersen and Kheam, 1998).

2.7.4 Agency Theory and Bank Performance.

The agency theory is based on the relationship between agents and their principals. Principals, which are the shareholders of the company usually, employ managers (agents) to run business on their behalf. The possibility that agents will pursue other interest, which is not in line with the expectations of the owners of the company, creates agents costs in form of conflict of interests. Prowse (1992), in a principal-agent model, suggests that managers are less likely to engage in profit maximising activities in the absence of strict monitoring from their principals. As far back as Adam Smith, it has been recognized that managers do not always act in the best interests of shareholders (Henderson, 1986). Therefore, if firms are controlled by, their owners are more profitable than those that are controlled by management; it means to say that concentrated ownership leads to better monitoring incentives that result in improved firm performance. However, owners may incentivise managers to pursue profit maximisation through performance related remuneration.

2.7.5 Ownership Structure and Bank Performance

The study of the impact of ownership structure on bank performance is one of the pertinent issues in corporate governance which has attracted the attention of many writers such as Shleifer and Vishny, (1997); La Porta et al. (1999), in the past decades. The relationship between firm performance and ownership structure emanates from the Agency Theory that is defined as the conflict of interest between managers and shareholders. The performance of an organisation depends on the way in which it is managed or controlled. Of which, the way in which corporates are managed is a function of ownership structure. As far as performance is concerned, Javid and Iqbal (2008) suggest that ownership identity matters more than concentration. He supported his idea by asserting that ownership identity reflects the interests and behaviour of owners. On the other hand, Ongore (2011) opined that the risk averseness and investment approach of shareholders has got a great influence on the behaviour of managers as they carry out their daily routine tasks in the company. Ongore (2011), the idea of ownership can be viewed from two perspectives: ownership mix and ownership concentration. Ongore shares the same sentiment with Gursoy and Aydogan, (2002) in suggesting that ownership can be looked at from two dimensions, which are ownership concentration and ownership mix. Ownership concentration refers to the proportion of shares that are held by shareholders in the firm and if ownership is said to be concentrated, it means a few shareholders possess most of the firm's shares. Conversely, ownership mix defines the

identity of shareholders. If managers are closely monitored, they tend to be less innovative because of bureaucratic hindrances.

2.8 Macroeconomic/External Factors

These factors are beyond the control of bank management. External factors exist in the environment in which the bank operates and changes in these factors can have a negative or positive effect on bank performance.

2.8.1 Inflation

The first author to address the issue of inflation in relation to bank performance was Revell (1979). The author revealed that performance depends on the rate at which expenses are rising in relation to inflation. If expenses are increasing at a higher rate than inflation, the effect on performance will be negative. However, when expenses are rising slower than inflation, the impact on performance will be favourable. Afanasieff et al. (2002) confirmed that inflation has a negative impact on interest margins. Naceur and Kandil (2009) backed the opinion basing on the fact that banks are mainly in the business of lending to corporates or individuals, thus the performance of banks depend on the demand of credit at a given point in time. Inflation reduces aggregate demand for loans because it imposes uncertainty about the future. The decline in demand will lead to reduced lending and eventually performance. On the other hand, Perry (1992) asserts that the effect of inflation on bank performance depend on whether inflation is anticipated or unanticipated. If inflation is anticipated, banks will revise their interest rates accordingly resulting in revenue, which increases faster than costs, therefore, inflation may have a positive implication on bank performance. However, if inflation is unanticipated, banks will be reluctant to adjust their interest rates in line with inflation such that costs will increase faster than revenues, hence a loss will be realised. In such a scenario, inflation is said to be having a negative association with bank performance. Revell (1980) contended that inflation could also be a factor contributing to the variations in a bank's profitability. He suggested that inflation affected banks through a number of ways such as interest rates and asset prices, exchange rates and operating costs.

2.8.2 Gross Domestic Product Growth

A higher growth in national output, as measured by gross domestic product (GDP) is associated with increased economic activities, which result in a bank to underwrite more loans, hence profitability. Therefore, there is a positive association between GDP and bank performance. This result received majority of backing from authors such as Schwaiger and

Liebig (2008) and (Athanasoglou et al., 2005) who suggest that during booms the demand for credit is high compared to periods of economic recessions. However, Bernanke and Gertler (1989) find an inverse relationship between bank performance and GDP. These authors advanced the following explanation to support their idea: in times of recessions, borrowers' credit ratings decline and banks will charge higher interest rates on loans, thus improving their performance

2.9 Implication of internal and external factors on bank performance

Olwency, and Mamba (2009) used the capital adequacy, liquidity management, assets quality and income diversification as internal factors while foreign ownership and market concentration used as external factors that affect the profitability of banks in Kenya. By employing multiple linear regression method, they concluded that all internal factors have significant impact on the bank's profitability while no market factor effect on the performance of banks. Javaid et al. (2011) investigated the factors that have great influence on the profitability of banks in Pakistan from 2004 to 2012. They employed Pooled ordinary least square method (POLS) in which equity, loans, deposits as independent and ROA were dependent variable. They found that equity and deposits have significant impact on ROA. Loans have weak but positive relationship with ROA. Gul et al. (2011) examined the bank specific and macroeconomic factors that affect the profitability of banks in Pakistan form 2005-2009. They used assets, equity, loans, and deposits as explanatory variables while ROA, ROE and NIM as dependent variables. By employing pooled ordinary least square (POLS) method they find out that bank with higher assets, deposits, loans, and equity have higher profitability indicators.

Safarli and Gumush (2012) conducted a study to determine the internal and external factors affecting the Azerbaijan banking sector. The CAMELS' model was used to evaluate the performance and Panel data regression analysis was used to determine the determinants of profitability. Their findings suggest that inflation and GDP have a negative relationship with performance of banks.

Qin and Pastory (2012) conducted their study on Tanzanian banks from 2000-2009 by applying regression model and found that liquidity and assets quality has positive relationship while non-performing loans and capital adequacy has negative relation with performance of banks.

Peng (2006), using data for the 14 largest banks in China for the period 1993-2003, studied the determinants of commercial bank performance in China. This study concluded that, performance of commercial banks in China is mainly determined by firm-level factors such as cost management capabilities and risk management capabilities.

In another study, using a sample of 79 largest Finnish savings banks, Tainio (1991) studied the processes that generate bank performance through an analysis of documented development of the banks and interview on the work histories of the managers. The study results indicate that performance of the banks studied is highly path dependent, suggesting that explanation of bank performance are more dynamic and context dependent. The results of this study also hints on the influence of idiosyncratic and tacit resources on bank performance.

Duncan and Elliot (2009), using a sample of 1548 customer respondents and annual observations for a period of five years from 1994 to 1998 for 14 institutions, study the relationships between efficiency, financial performance and customer service quality among a representative cross-section of Australian banks and credit unions. The results of this study show that all financial performance measures utilised in the study (interest margin, expense-income, return on assets and capital adequacy) are positively correlated with customer-service quality scores. Indicating that service delivery capabilities can significantly influence the financial performance of banks.

Applying face-to-face interview with a senior manager from a consistently high-performing financial service firm in Australia, Clulow et al. (2003) demonstrate that the extent to which a financial service firm acknowledges, develops and deploys valuable intangible assets and capabilities enable the financial service firm not only to survive, but to also consistently outperform rivals. Mitkiet al. (2007) used an in-depth case study interviews with senior management of a subsidiary of an Israeli bank to study the learning mechanisms for designing corporate identity in the banking industry. The study results indicated that designing an effective learning mechanism has a significant impact on profitability and improving satisfaction among both workers and clients. The findings of this study suggest that, learning capability is important for bank success.

Alper and Anbar (2011) conducted a study to find out the factors that affect the performance of banks in Turkey during the period 2002 to 2010. They used the panel-data regression analysis and find that ROA is positively linked to Asset size, Non-funded income-assets ratio, and real interest rate, while ROA is negatively influenced by loan-assets ratio. Other factors such as capital ratio, deposits-assets ratio, net interest margin, GDP, and inflation are not related to banks profitability. Anum and Qudous (2012) analysed the determinants of profitability of banks by utilizing data from 2005 to 2009 on quarterly basis. They applied the regression technique to find out the outcome. They found that internal factors such as credit risk, interest income, and advances have significant impact on the profitability of banks. Bank size did not have a considerable effect on the profits. Ayadi and Boujelbene (2012) they discussed in their study the factors that affect profitability of Tunisian banks during the period 1995-2005. They found that bank size is significantly linked to profits while credit risk and liquidity were found to be less significant in explaining the profitability of Tunisian banks. External factors GDP and Inflation have negative association with performance of banks.

Shaher et al. (2011) did their study in the Middle East region to examine the factors that have influence on the overall performance of banks. Their findings suggests that bank characteristics (Bank size, size and term of deposits and duration of loans, concentrations in lending activity ,bank capital and bank operating costs) have a significant impact on bank profitability. These findings are in contradiction with Anum and Qudous who find a weaker relationship between bank size and performance. Maybe this is because; the extent to which individual banks can benefit from economies of scale associated with size depends on the quality of management to exploit the benefits associated with volumes.

Ali et al. (2011) conducted their study to evaluate the factors affecting the Jordan Islamic banks over the period 2005-2009. Multiple Linear regression model was applied in this study and the results revealed that ROE has a significant relation with total equity-total asset ratio and total income-total asset ratio while on the other hand; it has an adverse connection with bank size, total liability-total assets ratio, GDP, inflation and exchange rate. Sufian and Razali (2008) conducted their study in Philippines to investigate on the factors associated profitability of banks from 1990 to 2005. In this study, a Multivariate regression model was used. Their study proved that profitability of banks has an adverse relationship with bank size, credit risk and expenses management but on the other hand having a direct relationship

with non-funded income, capitalization, and inflation. While the other external factors such as money supply, stock market capitalization has an insignificant impact on the performance of banks. Saona (2011) investigate the relationship of bank specific variables and macroeconomics variables with profitability of US banking industry over the period of 1995-2007 with the help of Generalised Method Moments (GMM) system estimator. He concluded that only one factor capital ratio has negative strong relationship with performance of banks. Bank size due to diseconomies of scale has negative relationship with profitability of banks.

However, there are scholars such as Wahid and Rahman (2009); who suggest that domestic banks may perform better than foreign banks. For instance (Cadet, 2008) stated that foreign banks may be inefficient than domestic banks in developing countries. There are different lines of views in support of the view that foreign banks perform less than domestic banks in developed countries. These views include; different market, competitive and regulatory conditions between developed and developing countries (Claessens, et al., 2000); home advantages of domestic banks (Clarke, et al., 2001) and within the U.S. that foreign banks have been performing poorly because they sought growth other than profitability (DeYoung and Nolle, 1996). On the other hand, within emerging economies, the reasoning behind improved performance of foreign banks over domestic banks encompasses exemption from directed lending, and other regulations governing bank operations (Claessens et al., 2000).

Scholars such as Farazi et al., (2011) argued that foreign companies perform better with high profit margins and low costs as compared to domestic owned ones. This is said to be true because foreign firms are believed to have tasted management skills in other countries they have been operating in over the past years. Furthermore, foreign owned firms usually tailor make their products and apply operation methodologies they have found to be effective in their home countries (Ongore, 2011). However, this may not entirely explain why foreign firms tend to perform better than domestic ones. Success of home operational strategies depends on the operating environment that characterise the host country. Some operating environments are hostile and may not match previous ways of doing business.

Azam and Siddiqui (2012) observed the profitability of foreign and domestic banks in Pakistan. They found that foreign banks perform better than domestic banks in Pakistan and resolved that inflation and GDP have a greater impact on domestic banks as compared to foreign banks. On the other hand, the findings by Azam and Siddiqui are in contradiction

with those of Claessens et al. (1998) who observed that domestic banks' performance is superior as compared to their foreign counterparts in developed countries. Micco et al. in Wen (2010) also support the view that in low-income countries, the performance of foreign banks is better as compared with the other types of ownership structures in those countries.

A research done in Pakistan by Azam and Siddiqui (2012) who used the regression analysis concluded that foreign banks are more profitable than all domestic banks irrespective of their ownership structure. This view has also been agreed upon by Okuda and Rungsomboon (2004) who researched on banks in Thailand and established that foreign owned banks are more efficient as compared to their domestic counterparts because of possessing modernized business activities supported by technological innovations, which reduced costs and increase revenue, and thus profitability.

One may also want to view the variations in the impact of ownership identity on bank performance from the perspective of the host government's attitude towards foreign investors. If government of the host country is too stringent to foreign investor, foreign banks tend to perform less than their domestic counterparties do.

2.11 Summary

The preceding chapter has highlighted the various strategies that can be employed by banks in order to survive under harsh operating environments. Apart from that, highlights on the proxies to measure bank performance, the determinants of bank performance and the reason for measuring bank performance have been clearly demonstrated in this chapter. Bank performance is mainly measured by the NIM, ROE, and the ROA. Theories such as the Agency Theory, Structure-Conduct-Performance (SCP) Theory, Resource Based View (RBV), and the Porter's Five Forces Model defined the reasons behind performance disparity between banks. The SCP Theory suggests that bank performance is determined by the structure of the industry and such that if the banking industry is highly concentrated, banks are unlikely to perform well. RBV suggests that performance is influenced by the resources that the bank has at its disposal. A banking institution with enough and quality resources than others tend to perform better. Empirical evidence from Tanzania, Turkey, Nigeria, and Tunisia has supported the influence of both external and internal factors on bank performance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter intends to present an overview of the methods used in gathering information to accomplish the objectives of this research. The main emphasis is to clearly outline and justify the research design adopted, the research population, the research sample, as well as various types of data and the approaches employed in collecting the data. The chapter will also provide an analysis on data validity and reliability of research instruments. Finally, the chapter will give the proposed data presentation plan and a summary to the whole chapter.

3.2 Research Design

This research will adopt an exploratory research design as the major and the most appropriate approach for this study. However, an explanatory research strategy will also be adopted, to analyse econometrically the determinants of bank performance. Both research approaches will enable the researcher to gather both qualitative and quantitative data needed to accomplish all the research objectives.

3.2.1 Exploratory Research Design

An exploratory research design was considered as the most suitable strategy for this study because of its ability to draw insights into various ways through which Zimbabwean commercial banks have managed to survive in challenging operating environments. This research design seeks to draw out a new set of ideas and suggestions that have never been explored before in as far as bank survival is concerned.

3.2.1.1 Research Population

The focus of this research is to find out how commercial banks are surviving in the multiple currency environment; therefore, the targeted research population consists of all Zimbabwean commercial banks that meet the criterion of full-scale operation from 2009 to 2013. Among the targeted bank, only heads of marketing, treasury, credit risk management, branch operations, and finance will be considered as respondents because they occupy decision making, strategic formulation, and implementation roles, thus their ability to provide valid information on how their institutions are surviving in the multiple currency exchange rate regime.

3.2.1.2 Research Sample

In order to come up with an appropriate research sample that can fully answer the research questions, a judgemental sampling approach was used. Judgemental sampling technique

allows the researcher to select certain respondents based on previous knowledge. In this case, banks that qualify to be part of the research are those banks that have managed to survive during challenging times. Respondents from each bank were also chosen based on the researcher’s opinion of individual employees who can offer factual and concrete knowledge concerning survival strategies being employed by their banks. One of each bank’s head of the treasury, marketing, finance, branch operations and credit-risk management division were drawn to make up the research sample. Taking into account heads of relevant departments of the 12 commercial banks, the sample size is 60. The table below shows the composition of the research sample:

Table 3.1: Composition of the Research Sample

Target	Number in Sample
Head Treasurer/Chief Dealer	12
Head Risk Management Division	12
Head Finance Department	12
Marketing Department	12
Head Branch Operations	12
TOTAL SAMPLE SIZE	60

Source: Raw Data

3.2.1.3 Data Types and Data Collection Instruments

This research makes use of both qualitative and quantitative data obtained from primary and secondary sources. Qualitative data was obtained from face-to-face interviews and self-administered questionnaires. On the other hand, quantitative data was obtained from publicly available financial statement of commercial banks that remained in operation from 2009 to 2013. The secondary data was collected solely for conducting a panel regression analysis on the factors that determine bank performance in Zimbabwe.

3.2.1.3.1 Primary Data

Sources of primary data such as interviews and questionnaires were used to gather up to date information on how commercial banks are surviving. Primary data is data that is collected from original sources and is therefore free from being out-dated and manipulation by various users as is with secondary data. However, primary data is time consuming and expensive to gather. To mitigate on the pitfalls of primary data, the researcher considered also the use of

secondary data. Primary data was gathered through personal interviews and self-administered questionnaires.

Questionnaires

Some of the primary data to be used in this research will be collected using questionnaires. Only heads of credit-risk management were asked to complete questionnaires that inquire the survival strategies in managing their loan portfolios. The questionnaires were made up of both close-ended and open ended questions. Questionnaires provide an easiest way of collecting data because they give the respondents ample time to go through them and answer them at their own spare time. However, questionnaires are vulnerable to incompleteness or completion in different contexts, thereby giving a false picture concerning the research population. To solve this challenge, the questionnaire was pilot tested to test its suitability in gathering the required information.

Interviews

Interviews were also used to collect primary data. Interviews are an important way of gathering raw data because they allow the researcher to ask as many questions as possible thereby allowing the researcher to get more clarity on certain issues. Unlike questionnaires that may contain close-ended questions only, an interview contains questions that can probe the respondents to provide more information. Apart from that, an interview gives assurance of immediate response and gives the researcher an opportunity to ask more questions for clarity purposes in case of vague and ambiguous responses. Interviews were conducted and the key respondents were the department heads of treasury, marketing, finance, branch operations of the 12 banks in the research sample.

3.2.1.3.2 Secondary Data

The researcher obtained secondary data from monthly reports and financial statements from 2009-2013 of all the 12 commercial banks that constitute the research sample. Secondary data is readily accessible from company websites and there is no need for the researcher to go into the field to gather data. However, the main challenge for using secondary data is that it would have been originally collected for some other uses and is therefore, prone to errors made by previous users. The researcher mitigated on this weakness by ensuring the use of renowned, authentic, and recognisable sources only.

3.2.1.4 Data Validity and Reliability

In order to ensure that the research instruments would be effective in eliciting the responses needed for the study, a pre-test activity was carried out. A test was done on the questionnaires regarding the use and construction of language, relevance, and validity of the questions. Two experts in the field of study who did not form part of the research population were given the questionnaire to evaluate its appropriateness. A couple of ambiguities were discovered and the research instrument was re-designed to eliminate any ambiguities regarding the goal of the researcher. Some questions, which were deemed inappropriate, were discarded from the questionnaire. The pilot study was very beneficial because it gave the researcher the assurance that the responses given will be useful in answering the research questions.

3.2.2 Explanatory Research Design

The research also used an explanatory research design to substantiate an exploratory research design in accomplishing the research objectives. The main emphasis is to analyse the factors influencing bank performance in Zimbabwe. This will be attained by the use of an econometric model.

3.2.2.1 Model Specification

The research adopted a panel-data regression model to analyse factors influencing bank performance. A Panel data analysis will be performed in a bid to identify and measure factors affecting bank performance in a better way that is not possible with simple time series and cross sectional analysis. Since panel data relate to individuals, firms, families, countries, there is bound to be heterogeneity in these sample units. Panel data takes into account individual-specific characteristics, firm A is different from firm B. Therefore, Panel data regression addresses the problem of unobserved heterogeneity. According to Gujarati (2004), panel data is a combination of both time series and cross sectional data. In this study, individual commercial banks in Zimbabwe reflect the cross-sectional nature of the data while the period from 2009-2013 caters for time series nature of the data. The model will make use of secondary data obtained from annual financial statements of 12 Zimbabwean commercial banks that have been in operation since 2009 up to 2013, including both domestic and foreign banks. In line with the symbolic model from earlier studies by Gull et al, (2011) and Javaid et al, (2011), the model used given below:

$$\text{PERFORMANCE} = f(x) [\text{ME, AQ, LA, CAD, INF, ALR, SIZE ...X}] (1)$$

Where, X is a provision for other variables that may also influence bank performance but are not present in the model. The equation below can also represent the relationship:

$$ROA_{it} = \beta_0 + \beta_1 ALR_t + \beta_2 ME_{it} + \beta_3 AQ_{it} + \beta_4 LA_{it} + \beta_5 SIZE_{it} + \beta_6 CAD_{it} + \beta_7 INF_t + \mu_{it} \quad (2)$$

Where:

i represents individual banks where $i=1, \dots, N$

t represents time where $t=1, \dots, T$

ROA: return on assets is a measure of bank performance

ME: management efficiency

AQ: asset quality

LA: lending appetite

SIZE: bank size

CAD: capital adequacy

ALR: average lending rate

INF: inflation

μ : error term

β_0 : an intercept

The model given above seeks to analyse factors influencing bank performance from an econometric approach.

3.2.2.2 Justification of Model Variables

Both bank specific characteristics and other external variables such as inflation and output can influence bank performance in Zimbabwe. Thus, with regard to the above proposition, the main issue is to establish the relationship between both exogenous and endogenous factors and bank performance. Both external and internal variables used have support of both empirical and theoretical evidence. These variables includes; management efficiency (ME), lending appetite (LA), bank size (SIZE), asset quality (AQ), capital adequacy(CAD),inflation (INF) and average lending rate (ALR). Outlined below are the justification of model variables and the expected coefficients signs of respective variables.

3.2.2.2.1 Management efficiency and expertise

This variable relates to management competency in deploying the bank's resources to earn profits. The more efficient the management, the lower the chances of making wrong investment decision which might undermine bank performance. Similarly, if managers are equipped with skills chances are higher that resources are going to be utilised efficiently to realise significant gains for the bank. The ratio of operating expenses to total assets is the measure of management efficiency and the ratio is expected to be negatively associated with return on assets (ROA) because a higher total operating expenses to total assets ratio is a sign of management incompetency.

3.2.2.2.2 Lending Appetite

Banks derive most of their income from loans and advances made to clients. The higher the amount of loans and advances, the higher the bank's income and profits. Banks can also benefit from cost reduction associated with large loan volumes, thus realising an improvement in profitability. Liquidity ratios can be used to measure the bank's desire to extend loans. These measures include; interbank loans expressed as a percentage of total loans and the loan to deposit ratio, however, in this research the loan to deposits ratio is going to be used and the coefficient is expected to be positive because the higher the proportion of deposits applied in the bank's lending activities, the higher the bank's profitability.

3.2.2.2.3 Bank size

Bank size is represented by the natural logarithm of total bank assets. The effect of bank size on performance is expected to be positive (Smirlock, 1985). Uhomoibhi, (2008), Dietrich and Wanzenried (2011), bank size should be positively related to bank performance. Larger banks are considered as highly diversified and may be able to source funds more cheaply than smaller banks. Moreover, larger banks have the potential to take advantage of economies of scale, which reduce operating costs, hence, profitability. Therefore, the direction of relationship is expected to be positive. Nevertheless, the relationship can be negative in an instance where banks will start experiencing diseconomies of scale due to too much bureaucracy.

3.2.2.2.4 Capital adequacy

The proxy used to represent bank capital adequacy is the ratio of total equity to total assets (Djiogap and Ngomsi 2012). The relationship is predicted to be positive because bank capital allows the bank to underwrite more business and thus profitability. However, a higher capital

adequacy ratio may not indicate better performance because a high capital adequacy ratio may suggest that the bank is conservative (risk averse) with regard to lending thus losing out in terms of interest income. Therefore, the direction of relationship cannot be predicted with certainty.

3.2.2.2.5 Asset quality

Commercial banks are predominantly in the business of lending where most of their income is derived in form of interest income, therefore, the performance of loans have a great influence on overall bank performance. Asset quality is an indication of loan performance and is measured by the ratio of non-performing loans to total assets. Van Greuning and Bratavonic (2003) suggest that a non-performing loan is a loan that is not earning income and full repayment of the principal. Therefore, the lower the asset quality, as indicated by a higher NPL to TA ratio, the lower the bank's profitability implying a negative relationship between the ratio of non-performing loans and bank performance.

3.2.2.2.6 Average Lending Rate

Lending rate represents the reward of giving out a loan. The higher the interest charges on a credit facility, the higher the profitability of the lender. Average lending rates (ALR) will be used as a proxy for interest rates. The direction of the relationship between performance and ALR is expected to be positive.

3.2.2.2.7 Inflation

Higher inflation rates are associated with higher interest on loans, hence profitability. However, the direction of relationship depends on whether inflation is expected or not. If it is expected, banks will adjust their lending rates accordingly to reflect expectation in increase in inflation such that revenue will increase at a higher rate than costs. Therefore, the relationship between inflation and return on assets (ROA) is expected to be positive if inflation is expected and negative if it is not expected. High inflation on the other hand, has got a tendency of discouraging lending because the value of the loan can be eroded before the repayment is done. Reduction in lending will in turn reduce the bank's potential to make profits.

3.2.2.3 Estimation Procedure

This research involved drawing data from the financial statements of twelve commercial banks in Zimbabwe over the years 2009 to 2013. The researcher used STATA 11 to estimate the parameters of the panel-data regression model in assessing the determinants of bank

performance. Appropriate diagnostic tests were carried out in respect to stationarity, heteroscedasticity, and multicollinearity and necessary measures were implemented to address irregularities. An overview of the test undertaken is given below:

3.2.2.3.1 Unit Root Test

Panel data contains some time series elements and unit root test were done to establish whether the pooled data was stationary overtime. If the trend is stationary overtime, it is predictable unlike when it is too volatile. In-order to draw meaningful results, data should not exhibit frequent up and down swings. Stationarity was tested using the Harris-Tzavalis unit-root test for stationarity.

3.2.2.3.2 Multicollinearity Test

The model was tested to check for the existence of multicollinearity. Multicollinearity exists when there is a strong (perfect) correlation among independent variables. Gujarati (2004) argue that multicollinearity affects econometric model results because coefficients will no longer be estimated with great accuracy. To establish whether there is correlation between explanatory variables, the study used a correlation matrix to assess the need to effect changes onto the model. To eliminate multicollinearity, the researcher had to exclude variables that had a perfect linear relationship. A correlation coefficient that is above 0.8 shows that there is multicollinearity.

3.2.2.3.3 Heteroscedasticity Test

According to Gujarati (2004), heteroscedasticity occurs when the spread (scedasticity) between the error term and the coefficients of regressors is not equal. Heteroscedasticity normally arise from scale effects, omitted variables and the existence of outliers. The main challenge of proceeding with data that suffers from heteroscedasticity is that any inference made to the data will be misleading. In order to detect heteroscedasticity, the study used the Breusch-Pagan Heteroscedasticity Test.

3.2.2.3.4 Model Specification Error Test

The researcher tested the model to determine the accuracy of the model specification and to ensure that the model is capable facilitating an analysis on the determinants of bank performance. With the aid of STATA 11, the research used the Ramsey's RESET test to detect model specification errors and make adjustments thereof.

3.3 Data Presentation and Analysis Plan

A variety of both of qualitative and quantitative techniques of data presentation such as cross tabulations, graphs and pie charts will be used to clearly present data so as to come up with summarised information which aids quick viewing and interpretation of data. The research will adopted an econometric method to analyse the extent of relationship between the explanatory variables and the depended variables in a regression analysis by making use of Stata Version 11.

3.4 Summary

This chapter dwelt much on the research methodology adopted for this study. The research adopted two research designs: exploratory (survey) and an explanatory research design. Primary data was collected with the aid of self-administered questionnaires and interviews with population representatives (sample). Secondary data needed in this study was collected from commercial banks' yearly financial statements. Unit root tests, multicollinearity, heteroscedasticity tests, and model specification tests were performed to establish the suitability of the model in analysing the determinants of banks performance. Lastly, the data presentation and analysis plan was put across thus paving way for the presentation, analysis, and interpretation of data which are the core issues in the succeeding.

CHAPTER FOUR: DATA PRESENTATION, INTEPRETATION AND ANALYSIS

4.1 Introduction

Proper data presentation aids the usefulness of information, therefore, this chapter serves to present, interpret and analyse empirical findings relating to the factors influencing survival and performance of Zimbabwean commercial banks. Data was processed using computerised statistical package, STATA (version 11). The researcher used STATA 11 to statistically

analyse primary data and process a regression analysis on secondary data. Results will be presented using various presentation tools such as pie charts, graphs and tables.

4.2 Response Rate Analysis

A total of 12 questionnaires were distributed to heads of credit risk management with 48 scheduled-interview sessions with heads of treasury, marketing, branch operations and finance department. Below are the outcomes of the data collection exercise done using questionnaires and interviews:

4.2.1 Questionnaire Response Rate

Out of the 12 questionnaires which were distributed to heads of credit-risk management, 10 of them were completed giving a questionnaire response rate of 83.33%. Below is a table which summarises the questionnaire response rate:

Table 4.1: Questionnaire Response Rate

	Total Questionnaires Sent	Total Questionnaires Returned	Response Rate
Head Credit Risk	12	10	83.33%
Total	12	10	83.33%

Source: Raw Data

The response rate of 83.33 percent was considered to be sufficient to justify the study because the rule of thumb recommends a response rate above 50% (Bell, 2003).

4.2.2 Interview Response Rate

Total of 48 interviews with heads of finance, marketing, branch operations and treasury were scheduled to be conducted. Below is a tabulation of the interview response rate;

Table 4.2: Interview Response Rate

	Total Interviews to be conducted	Interviews Conducted	Response rate
Head Treasury Division	12	7	58.33%
Head Branch Operations	12	8	66.67%
Marketing Department Head	12	9	75%

Head Finance	12	6	50%
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Source: Raw Data

Of the 48 scheduled interviews, only 30 of them were successful giving an interview response rate of 62.5%. According to Bryman and Bell (2003), a response rate above 50% is recommended, therefore the researcher’s 62.5% response rate is sufficient to justify the study and warrant the credibility of the data gathered in representing the entire population.

4.3 Ages of Surveyed Banks

The table below shows that the surveyed banks have been in commercial banking for an average of 40.7 years with 11 years being the minimum, 122 years being the maximum number of years in commercial banking and 20 is the median age. Table 4.3 below summaries the bank ages:

Table 4.3: Summary of Ages for the Surveyed Banks

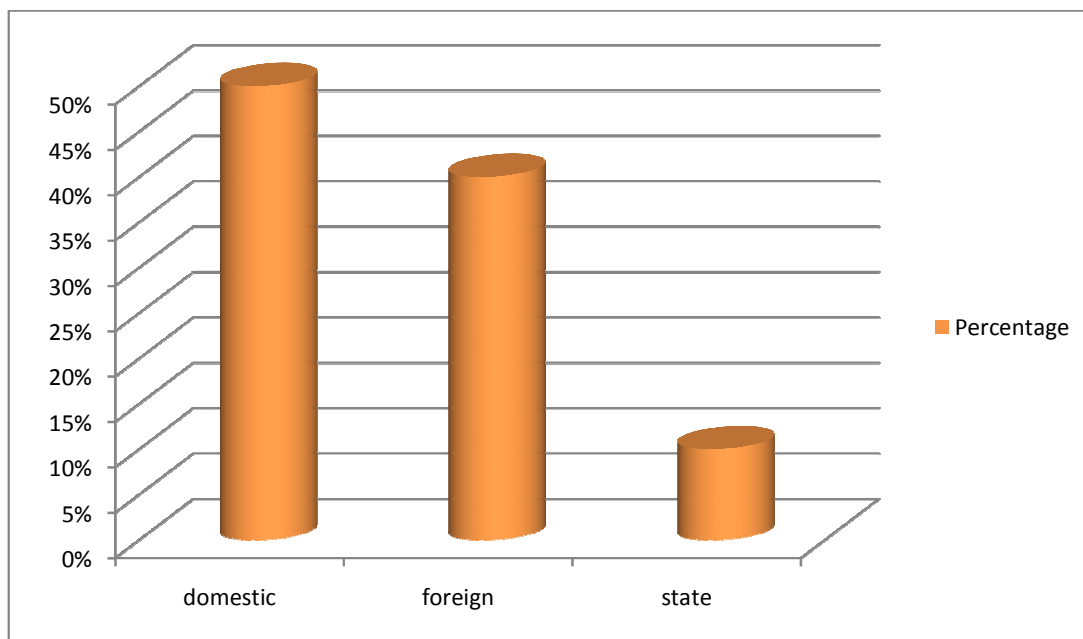
Variable	Observations	Mean	Standard Deviation	Median	Minimum	Maximum
Years in commercial banking	10	40.7	43.1536	20	11	122

Source: Raw Data

4.4 Ownership of the Surveyed Banks

Of the 10 banks that were inquired, 50% are locally and owned, 40% are foreign, and the remaining 10% was attributable to state owned ones. Figure 4.1 gives a summary of the various ownership structures of the surveyed banks:

Figure 4.1: Ownership of the Surveyed Banks



4.5 Listing Status of the Surveyed Banks

60% of the surveyed banks are listed on the Zimbabwean Stock Exchange (ZSE). Respondents indicated that to be listed on a stock exchange has allowed banks to mobilise funds from the public in form of share issues, private placements and rights issues. However, 40% of the respondents are not listed on the Zimbabwe stock exchange citing challenges to comply with listing rules and requirements. Of the listed banks, 40% of them are foreign owned giving them the room to recapitalize through foreign markets.

4.6 Findings

Table 4.4 gives a summary of the cross tabulation between pairs of variables. These will be referred to in later sections of the research findings.

Table 4.4: Correlation Analysis between Variables

Correlation Between Two Variables	χ^2	5% Critical Values.
Ownership of the bank; rebranding	0.3125	5.991465

Ownership of the bank; listing status	0.8333	5.991465
Corporate social responsibility; ownership	1.2	5.991465
Years in commercial banking; market segmentation	10.0000	16.91898
Years in commercial banking; innovation	1.9048	5.991465
Years in commercial banking; corporate social responsibility	4.1333	5.991465
Listing; member of a bank holding company	4.6250	3.841459

4.6.1 Strategies Employed to Mobilise Deposits and Retain Customer.

20% of the surveyed banks indicated that they rebranded as a way of launching themselves in a new corporate image to retain customer trust. Respondents indicated that, after the dispensation of the multiple currency regime, there was need to restore public confidence that had been dented during the hyper-inflationary era. As such, it was imperative for banks to be engaged in activities that can re-engage the public to the banking system. A couple of interviewees indicated that their banks have embarked on a rebranding exercise to instil public confidence. Rebranding has been in form of changing corporate colours and launching a new pay-offline. Of the 20% banks that rebranded, 100% of them are locally owned. However, there was no statistically significant difference between rebranding and ownership structure as shown by χ^2 statistic of 0.3125 which is greater than the critical value of 5.991465. This means that the difference between domestic ownership and foreign ownership and rebranding is not different from zero.

4.6.2 Corporate Social Responsibility

50% of the surveyed indicated that they are being involved in corporate social responsibility activities. Respondents argued that by being mindful of the society in which they operate, commercial banks have gained guaranteed support in the form of deposits from the society. Apart from that, marketing department heads of the surveyed banks indicated that bank can actually get a good corporate image by being socially responsible. This concurs with Dwight (2003), who argued that social responsibility is a vehicle which carries an organization to its future state. One of the socially responsible bank highlighted that it is being committed in sponsoring Zimbabwean Cricket team as a way of ploughing back its profit to the society. However, there is no statistical significant difference between number of years in commercial

banking business and engaging in corporate social responsibility programs. This is shown by χ^2 statistic of 4.1333, which greater than the critical value of 5.991465.

4.6.3 Relationship Marketing

Surveyed banks revealed that they adopted relationship marketing as a strategy to retain existing clients in the face of a competitive banking industry. Respondents echoed that relationship marketing is at the fore of their survival because it ensures that customer needs are met always. Relationship marketing allows banks to be close to their customers, so that business with customers is not lost. It also allows banks to know and understand the ever changing needs of their customers in order to be able to meet them more than what competitors can do. As such, banks have developed electronic platforms to promote frequent interaction with their customers. Banks have also put in place customer suggestions and complaints platforms to address each and every customer's need.

4.6.4 Market Segmentation

Respondents indicated that due to the fragmented consumer base, there is need to further split the entire market into sub-groups which will help in the identification of specific consumer needs and ultimately customers' satisfaction and retention. 80% of the surveyed banks have resorted to market segmentation to improve deposit inflows. There was no statistically significant difference between young, older banks and market segmentation. This means that it is only by chance that older and younger banks are segmenting their markets in order to improve deposit mobilization.

4.6.5 Product Innovation and Differentiation

Financial services are to a larger extent intangible and are difficult to associate them with a single provider because they are more or less the same. As such, for banks to remain above the waters, they need to differentiate their products with those of competitors. Informants indicated that some banks have identified themselves with unique products which gives a competitive mileage allowing them to survive more than others. Product differentiation allows banks to realize an addition in revenue associated with new product features. The survey indicated that new product innovation has taken the form of international money transfer platforms that promote the trickling in of remittances. The difference between bank age and product innovation was found to statistically insignificant ($\chi^2=1.9048$ being less

than the critical value of 5.991465) implying that the difference between older and younger banks and innovation is only by chance.

4.6.6 Use of Information Communication Technologies (ICT)

The 100% of the banks in the survey have resorted to the use of technology as a service and product deployment strategy. Informants highlighted that, the use of ICT in banking is a deposit mobilization reduction strategy as also suggested by AL-Sukkar and Hasan (2005). Adopting SMS-banking and e-banking allows banks to reach out the remote and unbanked population. ICT in banking has allowed banks to promote financial inclusion by integrating the unbanked population, especially in rural areas thereby increasing deposits. Lagging behind in terms of technological advancement will result in a bank being relegated into the technological dust-bin and as such, banks are surviving by keeping abreast with technological changes. This is in harmony with the findings of Duncan and Elliot (2009) for Australian banks in which customer service quality was associated with improved bank performance.

4.6.7 Mobilising Deposits through Partnerships

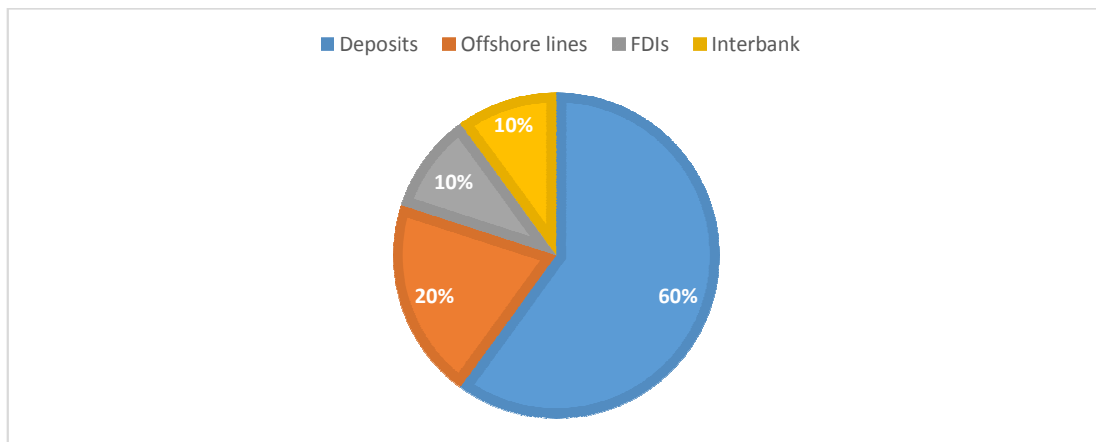
Results revealed that 30% of the surveyed banks have partnered with the Zimbabwe Revenue Authority (ZIMRA) at all country borders in aiding revenue collection. In addition, respondents mentioned that bank are mobilizing deposits through free banking with churches and schools. Some banks indicated that they have gone an extra mile to the extent of operating on Sundays in order to create convenience for customers in need of cash during weekends. Some respondents revealed that banks are carrying out promotional campaigns meant to encourage deposits. Informants further indicated that, promotions are in form of competition to win school fees vouchers and rewards associated with keeping money for a certain period of time in the bank.

4.7 Corporate Financial Strategies

The survey indicated that most banks resorted to deposits as the main source of funding. 60% of the surveyed banks are relying more on deposits to fund their operations in the multiple currency era. However, 20% of the surveyed banks indicated that they are mainly sourcing their funding from offshore lines or credit. These results are in contradictions with those for banks in Panama which had a huge dependence on offshore lines of credit (Bogetic, 1999). The reason might be that unlike Panama in which an official dollarisation was adopted, in Zimbabwe it was de facto dollarisation. Furthermore, the country risk might have been low in Panama than Zimbabwe. The difference might be because Panama had more foreign owned

banks than Zimbabwe. Foreign banks have easier access to offshore lines of credit than domestic owned ones. The figure below also indicate that nothing much is happening in terms of rights issues as a source of funding in commercial banks. Foreign direct investments (FDIs) are not very active in the Zimbabwean banking sector financing and only 10% of the surveyed banks are mainly relying on FDIs. The respondents which relied on FDIs indicated that FDIs where mainly in form of external injection of capital by foreign investors. Maybe this is due to the indigenization policy adopted by the Zimbabwean government which discourage foreign investments. 10% of the banks are depending on interbank borrowing. Figure 4.2 gives a summary of the several ways of sourcing funding by commercial banks in Zimbabwe.

Figure 4.2: Commercial Banks Sources of Funding in the Multiple Currency Era



Source: Raw Data

The findings also revealed that bank ownership can affect the probability of bank survival. Informants from foreign owned banks indicated that, foreign owned banks have a greater chance of surviving in a dollarized economy because they have better access to foreign capital injection than locally owned banks. Apart from that, banks that are members of a bank holding company (BHC) are in a better position to survive adversities because the can get help from member companies (Houston, 1997). As shown by the χ^2 statistic of 4.6250 which is greater than the critical value of 3.8424, there is a statistically significant difference between listing status and being member of a bank holding company. This means that in the multiple currency regime, being member of a bank holding company and being listed is not by chance.

4.7.1 Cost Reduction Strategies

The survey revealed that after the adoption of the multiple currency system, 60% of the surveyed banks engaged in massive retrenchments exercises, some of which were mandatory and others were voluntary. Voluntary retrenchments were meant to reduce head count thus ultimately cutting down salaries and wages bill. 40% of the banks that did not retrench had lean organizational structures which limits the number of employees at each branch. Integration of separate banking units into one financial institution is one of the survival strategies being implemented by commercial banks in Zimbabwe. This is meant to reduce operating costs and to improve customer convenience who would access both commercial bank and building society services under one roof.

4.7.2 Diversification as a Measures to Increase Revenue Base

As a result of financial liberalization, 80% of the respondents admitted that their banks are being involved in non-bank financial products such as funeral plans and underwriting insurance policies. This shows that banks are surviving through engaging themselves in non-core activities. Banks are diversifying as a way of establishing a fall back mechanism in case of constrained revenue sources from lending activities. One of surveyed banks indicated that it introduced a hospital cash plan as a way of boosting revenue sources.

4.8 Loan Facilities Offered by Commercial Banks in the Multiple Currency Environment

Evidence from the survey revealed that banks resorted to various loan products designed to earn income for the banks. Surveyed banks indicated that they are resorting to group scheme loans as a way of improving repayments. Furthermore, they indicated that they are issuing loans that are guaranteed by employers as a line of defense in case of client default. Table 4.5 shows products being offered by the surveyed banks:

Table 4.5: Loan Products Being Offered by the Surveyed Banks

Client Category	Loan Products
Individuals	Salary based loans, overdraft facilities, mortgages, group scheme loans
SMEs	invoice discounting, inventory financing,
Corporates	Working capital facilities, asset financing loans

Source: Raw Data

4.9 Measures to Improve Loan Quality

Credit risk heads of the surveyed banks revealed that they are being aggressive with regard to lending. However, only 25% of foreign banks are being liberal in lending soon after the adoption of multiple currency, foreign banks took a passive stance with regard to lending.

4.9.1 Basis for Lending

The basis upon which credit is granted can determine the borrower's default probability. 100% of the surveyed banks stressed that they grant credit based upon an array of considerations. Among those consideration, lending based on cash flows was considered to be the most appropriate.

Table 4.6 Ratings on lending Preference in the Multiple Currency Regime

Cash flow based lending	Most preferred
Collateral based lending	Preferred
Lending based on balance sheet strength	Less Preferred
Lending to existing clients	Preferred

Source: Raw Data

Lending based on balance sheet strength is the major reason why most banks in Zimbabwe are sitting on non-performing loans. Respondents pointed out that they take into account all considerations before granting credit to ensure that credit is offered on realistic bases. Lending to existing clients was preferred in line with the central bank's emphasis on Know Your Customer (KYC).

4.9.2 Loan Maturities

The study revealed that commercial banks in Zimbabwe are preferring to lend short rather than lending on long-term basis. Insights from the interviews indicated that commercial banks are granting short-term loans so as to avoid asset and liabilities mismatches caused by

volatile sources of funds. Respondents revealed that despite their preference for short-term loans, long-term loans to SMEs and corporates are being extended on stiff credit risk analysis to avoid the breeding of high levels of non-performing loans.

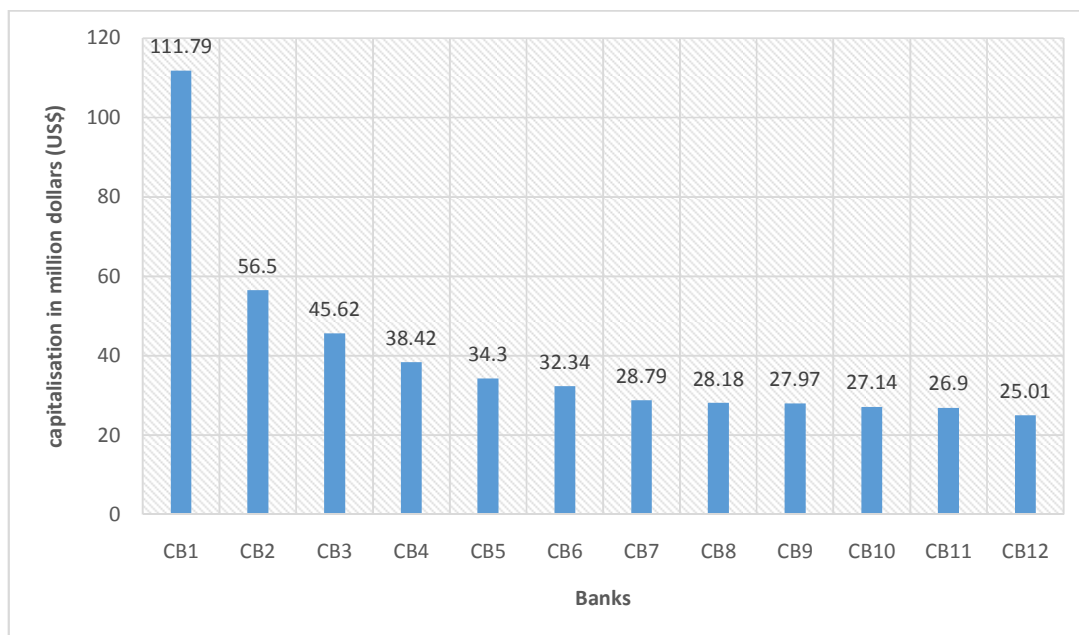
4.9.3 Type of Borrowers

80% of the surveyed banks indicated that they are preferring to offer salary based loans to individuals, who are mainly civil servants. Respondents underscored that individual based loans have a low default probability and the loans are secured by salaries and insurance. Due to limited sources of funds to underwrite huge loans, surveyed banks indicated that they are surviving on “eating what they hunt”, that is, they are offering short-term loans of low value to individual clients. Apart from that, granting numerous loans to individual clients is a form of diversification which lessens the impact of loan defaults. The survey also revealed that corporate loans are being granted on selective basis and after strict examination of repayment capacity of prospective borrowers.

4.10 Capitalisation and Survival of Surveyed Banks

The survey revealed that bank capitalisation is associated with bank survival. 100% of the surveyed banks are well capitalised within the minimum capital requirements prescribed by the central bank. Adequately capitalised banks have the ability to withstand unexpected shocks emanating from either non-performing loans or other bank risks. This coincides with a theoretical dimension shown by Mehran and Thakor (2009) that higher capital leads to higher survival probability in both static and dynamic set-ups. In addition, capital adequacy allows banks to underwrite more loans than under-capitalised banks. Figure 4.3 shows the capitalisation status of the surveyed banks as at 31 December 2012:

Figure 4.3: Commercial Bank Capital as at 31 December 2012



Source: RBZ, 2013

4.11 Determinants of Commercial Bank Performance in the Multiple Currency Era

To complement the survey carried out on factors influencing bank survival, an econometric approach was taken to analyse the factors that determine individual bank performance. As such, a panel-data regression analysis was run under a statistical package, STATA 11. Several diagnostic tests were performed to ensure the validity and the correctness of the regression model. The following tests were done:

4.11.1 Diagnostic Tests Results

Necessary procedures in the computation of the panel regression model were carried out. Computations with regard to stationarity, homoscedasticity, multicollinearity, and model specification were done and the following results were obtained:

4.11.1.1 Unit Root Test

Unit root test are conducted to test for the stationarity of variables over time. If variables are too volatile, the data cannot be used with much certainty. Therefore, the variables were tested for stationarity under the null hypothesis that no variables are stationary and an alternative hypothesis that variables are stationary.

Table 4.7: Unit Root Test Results

Variable	Z-values	P-values
Interest Rate	-10.6687	0.0000
Loan to Depositor Ratio	-3.9631	0.0000
Capital Adequacy	-1.6339	0.0491
Bank size	-3.3649	0.0000
Inflation	-2.1507	0.0158
Management Efficiency	-4.6116	0.0000
Non-Performing loans	-4.4513	0.0000

Table 4.7 shows that we reject the null hypothesis given that all the p-values of the variables are less than 0.05.

4.11.1.2 Multicollinearity Test

The test was conducted under the null hypothesis that there no multicollinearity (H0) against the alternative hypothesis (H1) that there is multicollinearity. To detect the presence of multicollinearity, a correlation matrix of all explanatory variables was used. The null hypothesis is rejected when the correlation between each pair of explanatory variables is less than 0.8. Table 4.8 shows the results obtained from the multicollinearity test:

Table 4.8: Correlation Matrix

	Npl	Alr	Cad	Size	Me	Infl	Ldr
Npl	1.000						
Alr	-0.0229	1.000					
Cad	-0.1145	0.0995	1.000				
Size	-0.0138	-0.0744	-0.0625	1.000			
Me	0.1543	0.1127	0.1543	-0.0625	1.000		
Infl	-0.0603	0.1235	-0.2017	0.3782	0.2130	1.000	
Ldr	-0.1490	-0.1732	0.2275	-0.1859	0.2130	0.2569	1.000

Table 4.8 shows that the null hypothesis should not be rejected since the correlation between each pair of explanatory variables is less than 0.8. Therefore, there is no strong correlation between independent variables.

4.11.1.3 Heteroscedasticity

Heteroscedasticity was tested using the Breusch-Pagan test for heteroscedasticity. The test was run under the following hypothesis and the decision criterion is to reject the null hypothesis when the p value is less than 0.05.

H_0 : there is constant error variance (homoscedasticity)

H_1 : the error variance is non constant (heteroscedasticity)

Table 4.9: Breusch-Pagan test Results.

Chi2(1)	3.46
Probability	0.0630

Table 4.9 show that the p-value of (0.0630) is greater than 0.05 and the null hypothesis is rejected because there is no constant variance of the error term for all values of the explanatory variables. Therefore, the model will adopt the Generalised Least Squares (GLS) method.

4.11.1.4 Model Specification Test

The model specification error was tested using the Ramsey RESET test. If the p-value of the F-Statistics is greater than 0.05, the model is said to be correctly specified, therefore we do not reject the null hypothesis.

H_0 : the model is correctly specified

H_1 : the model is incorrectly specified

Table 4.10: Ramsey RESET test for Model Error

F(3, 37)	1.09
Prob > F	0.3672

Table 4.10 shows that the null hypothesis is accepted since the p-value of the F-Statistics is greater than 0.05, which means that the model is correctly specified.

4.11.1.4 Co-efficient of determination

The data was run to determine the goodness of fit of the model. Results showed that $R^2=0.5811$ implying that about 58% variations in bank performance in the multiple currency is explained by the explanatory variables catered for in the panel regression model.

4.11.2 Regression Results

After carrying out the necessary diagnostic test and addressing irregularities within the model, a regression was run and the following outputs were obtained.

Table 4.11: Summary of Panel Regression Outputs

Variable	Coefficient	Standard error	t-statistic	P- value
Average Lending Rate	0.1232249	0.1707575	0.72	0.471
Loan to Depositor Ratio	0.0380044	0.0111822	3.40	0.001
Capital Adequacy	0.2486982	0.1041001	2.39	0.017
Bank size	0.050849	0.0192471	2.64	0.008
Inflation	0.000431	0.0009629	0.45	0.654
Management Efficiency	-0.042136	0.0405931	-1.04	0.299
Non-Performing loans	-0.124464	0.035014	-3.55	0.000

C= -0.4529

4.11.3 Interpretation of Panel Regression Results

The above panel regression outputs relate to the factors that influences the performance of commercial banks in a dollarized economy. Interpretation of the results will be done in respect to the magnitude and direction of relationship (+/-) between ROA and the explanatory variables in the model. An analysis of the result will be based on theoretical and empirical postulations as well as the expected signs of explanatory variables.

4.11.3.1 Average Lending Rates

From the regression results, the average lending rate was found to be having a positive insignificant impact on bank performance in a multiple currency regime set up. In terms of direction of influence, these results concur with a prior research by Atif, et al. (2012) for banks in Pakistan.

4.11.3.2 Loan to Deposit Ratio (LA)

The regression results show that loan to depositor ratio has a considerable statistical significance in influencing bank performance in the multiple currency regime. However, the results contradict with earlier findings by Garcia-Herrero et al. (2007) for Mexican banks. The reason possibly lies in the fact that greater amount of loans do not necessarily result in increased revenue since they may turn bad if not correctly managed. In Zimbabwe, the

average loan to deposit ratio are higher with higher non-performing loans but bank are not prudently providing for such.

4.11.3.3 Capital Adequacy (CAD)

The results show that, for Zimbabwean commercial banks, capital is positively and statistically significant in explaining differences in bank performance. A 1% improvement in the capital adequacy ratio will automatically lead to a 24% increase in performance. These findings are in consonance with those found by Guerrero and Villalpando (2009) for Mexican banks, Goddard et al. (2004) for European banks and by Berger, (1995) for US banks. The results are also in line with the postulations of the resource based view, which state that firms with better resources are likely to outperform those who do not have. In this case, capital adequacy represent a comparative advantage that a bank can enjoy in terms of its ability to underwrite more loans than rivalries. However, the relationship is negative in a similar study by Qin and Pastory (2012) for Tanzanian banks from 2000-2009 implying that banks may not necessarily be willing to extent credit even if they have the capacity to do so depending on their credit culture and policy.

4.11.3.4 Size (SIZE)

Bank size as shown by the log of Total Assets has got a statistically significant influence though the relationship is weak as shown by the co-efficient of 0.050849. These findings confirm the findings of Javaid et al (2011) for banks in Pakistan and Davydenko (2010) for banks in Ukraine. However, the results are not congruent with the findings of Imad et al. (2011) for Jordanian banks because banks may grow excessively and suffer from inefficiencies associated with bureaucratic processes.

4.11.3.5 Inflation (INFL)

Year on year inflation as measured by the consumer price index (CPI) is not statistically significant in influencing bank performance. The co-efficient was expected to be negative but the results revealed a positive association, thus confirming the proposition by Perry (1992) which state that inflation can have both a negative and positive relationship with performance depending on whether inflation is expected or not. After the adoption of the multiple currency exchange rate system, banks in Zimbabwe were better able to predict inflationary changes due to a more stable operating environment allowing them to incorporate inflation effects in their loan pricing.

4.11.3.6 Management efficiency (ME)

The results show that the variable is not statistically significant in explaining bank performance in the multiple currency regime. Though not statistically significant, the results are in line with the hypothesised results, which state that the lower the ratio of operating expenses, the more efficient the management is in deploying firm resources profitably. Thus, as stated by the efficient structure hypothesis, efficiently managed banks are better positioned to earn higher profits than less efficient ones.

4.11.3.7 Non Performing Loans (NPL)

The results show that non-performing loans constraints bank performance as indicated by the negative co-efficient. The results are in line with the researcher's expectations that increased levels of non-performing loans reduces through charge-offs and write-offs. Moreover, non-performing loans were found to be statistically significant in explaining bank performance in the multiple currency regime.

4.12 Summary

The chapter has presented the findings of the entire study. Evidence from the survey shows that commercial banks in Zimbabwe are surviving on offshore lines of credit, interbank borrowings, and FDIs given the liquidity ails in the multiple currency era. Foreign owned commercial banks, which are affiliates of foreign bank holding companies, are living on help from other foreign affiliates or from parent company. To mobilise deposits in an economy with a low savings culture, banks are creating partnerships with revenue collecting agencies such as the Zimbabwe Revenue Authority (ZIMRA). More so, banks are carrying out promotional activities to encourage the public to keep money in the bank. To instil confidence and maintain good corporate image, commercial banks in Zimbabwe have embarked on several corporate social responsibility programmes to gain the nod of the societies that sustains them. Since the adoption of the multiple currency regime, commercial banks have been unwilling to extend credit on long-term basis, instead preference have been given to short-term individual salary based loans which have a low probability of defaults.

A panel regression model using the Generalised Least Squares (GLS) was run to assess various factors that accounts for variations in bank performance in the multiple currency regime. The results revealed that bank specific factors such non-performing loans (NPL), capital adequacy (CAD), loan to depositor ratio (LDR), and bank size (SIZE) are statistically significant in predicting bank performance. Nonetheless, interest rates and management

efficiency were found to be statistically insignificant in the determination of bank performance. The succeeding chapter will give a summary of the research giving conclusions, recommendations, and suggestions on what needs to be done by future researchers.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the research findings, provides the conclusion of the entire study as well as the recommendations centred on the findings of this research. The recommendations suggested in this research are expected to benefit commercial banks on how they can remain resolute when confronted with various challenges in their operating environment. Additionally, this chapter will give suggestions on what needs to be worked on by future researchers.

5.2 Summary

The study was set on the motive of assessing the factors that have influenced bank survival and performance since the adoption of the multiple currency system in 2009. The research was triggered by the fact that other banks are still posting solid earnings in an environment that is contrary to such performance given attendant liquidity challenges biting the economy. Moreover, some banks have failed to make it and others have remained firm despite the storms in the banking sector. The researcher gave a brief background on several challenges that have been experienced by commercial banks in Zimbabwe since 2000. Apart from that, the researcher provided some quantitative background concerning the performance of surviving banks.

In order to establish how banks can survive in a multiple currency regime, reference was made from different countries that experienced hyperinflation and were ultimately dollarized. Several authors and researchers stated that dollarisation is beneficial for the stability of the financial system but it can as well pose challenges to bank operations. The incapacitation of the central bank to undertake its functions as a lender of last resort (LOLR) was cited to be a major challenge aggravating liquidity problems in dollarized economies. Commercial banks in countries like Panama and El Salvador managed their liquidity by resorting to offshore lines of credit, FDIs, and mobilisation of deposits. In MENA countries, mergers and

acquisitions were cited to promote bank performance and survival. The researcher referred to various authors who used different models to determine the factors influencing bank performance in both developing and developed economies.

An exploratory research design was adopted to unveil factors that have influenced commercial bank survival in the multiple currency era. The exploratory research was complemented by an explanatory research design to determine factors influencing variations in commercial bank performance in a dollarized environment. Data for the survey was collected using questionnaires and interviews with different departments' personnel from twelve commercial banks that met the criterion of full scale operation from 2009. Data for computing a regression model was obtained from yearly financial statements of the twelve commercial banks that were in full scale operation since 2009.

The findings revealed that banks have resorted to rebranding, corporate social responsibility, and relationship marketing in order to retain customers and improve deposit inflows. Banks are also resorting to offshore lines of credit as the main funding source in the absence of the lender of last resort. Evidence from the survey suggests that most banks are being conservative with regard to lending on long-term basis due to the transitory nature of deposits. It was unveiled that, most bank portfolios are made up of short-term salary based loans extended mainly to civil servants. Ownership and capitalisation were found to important factors behind most bank's survival in the dollarized economy. Foreign banks have a higher survival probability because of their ability to access funding from external parent companies. Apart from that, banks, which are membership of bank holding companies (BHC), have a greater chance to survive in several challenges. From the survey, bank capitalisation is associated with bank survival. It was also established that innovativeness and marketing aggressiveness could account for bank survival.

An econometric analysis on the factors that cause variations in bank performance in a multiple currency environment revealed that non-performing loans, capital adequacy, loan to deposit ratio and bank size are statistically significant in influencing bank performance. Nevertheless, inflation, management efficiency, and average lending were found to be statistically insignificant in predicting bank performance. Therefore, firm specific factors account for a larger proportion of variations in bank performance.

5.3 Conclusions

The adoption of a multiple currency exchange rate system ushered several benefits to commercial banks in Zimbabwe. Nevertheless, the new currency regime brought some challenges as well. These challenges have manifested themselves in form of attendant liquidity challenges that have caused retarded credit creation and deterioration in asset quality. Despite that, other banks have failed to withstand the challenges but others have managed to remain in operation. Surviving banks were found to be affiliates of foreign bank holding companies (BHC), well capitalised, innovative, and aggressive in their marketing, effective in mobilising offshore lines of credit and employing rigorous credit-risk analysis tools. The results from the panel regression performance are explained by firm specific factors such as management efficiency, capital adequacy, loan to deposit ratio, level of non-performing loans and bank size. Therefore, banks need to improve their firm specific attributes in order to improve their performance despite a challenging operating environment.

5.4 Recommendations

Bank survival and performance is key to the stability of the financial system and the overall growth of the economy. It is only when banks are in health state that they can be able to perform financial intermediation roles. Therefore, bank supervisors in collaboration with bank owners should put in place measures that promote bank performance and survival. The remedies for bank survival will vary from those implemented by external parties with interests in the banking sector and those implemented within individual commercial banks. The researcher recommends the following be done to address various banking sector challenges to promote bank survival:

5.4.1 Solution to Liquidity Challenges

Since the dollarisation of the Zimbabwean economy, illiquidity has been a major challenge confronting commercial banks. Illiquidity can compromise the performance and survival of commercial banks because liquidity is said to be the heart of every commercial bank without which banks cannot fund the increase in assets or settle their obligations, ultimately leading to bank downfall.

5.4.1.1 Establishing Diversified Funding and Revenue Sources

Banks should desist from over-reliance on traditional revenue sources such as interest income. Instead, banks should be innovative enough to come up with product designs or tap into other business lines to boost their income streams. The importance of having diversified sources of funding is also seen from the collapse of Northern Rock. If banks are diversified in terms of their income and funding streams, they will not be overburdened by an unexpected decline in interest income. Banks can resort to non-banking products such as insurance, foreign remittance services, funeral policies, and medical aid plans. Banks may enter into new market segments where they can possibly enjoy a comparative advantage.

5.4.1.2 Encourage Fixed Deposits

An econometric analysis revealed that the loan to depositor ratio has positive significant impact in promoting bank performance. Therefore, banks should strive to improve their deposit bases through offering enticing rewards to those who keep money in the bank for a long time. Fixed deposits represent a stable funding source and have a predictable withdrawal pattern that allows banks to improve their liquidity management in the multiple currency exchange rate system.

5.4.1.3 Create Partnership with International Banks

The findings of this research established that banks are relying on foreign lines of credit for their survival. Hence, it is prudent enough for local banks to seek partnerships with foreign banks so that they can get funding at reasonable costs.

5.4.1.4 Minimise Operational Costs

The econometric model revealed that management efficiency as measured by total operating expenses to total assets is influential on bank performance. Banks therefore, need to work on reducing operating costs through either branch rationalisation or embarking on voluntary or mandatory retrenchments to reduce staff costs. Bank fund managers should carry out comprehensive cost management accounting to ensure that only profitable and viable branches will remain in operation and close unprofitable ones.

5.4.1.5 Government Policy Reconsiderations

The government has to revise its policies to ensure whether they are still compatible with current developments. In an environment where the economy is suffering from a liquidity crunch, the government is not expected to be seen pursuing policies such as the indigenisation policy that candeter foreign capital inflows. The survey revealed that banks are surviving on FDIs and as such, the government should follow policies that seek to promote the same.

5.4.1.5 Recapitalisation of the Central Bank

The ministry of finance should recapitalise the central bank for it to be able to resume its functions as a lender of last resort. The central bank is known for extending an accommodation window for banks facing a liquidity gap. In addition, the increase in asset class deterioration has been attributed to gross violation of supervisory guidelines and the recapitalisation of the central bank will strengthen its supervision duties. The reluctance of banks to participate in the interbank is because the risks associated in bank interaction without the lender of last resort function as a guarantor. Therefore, the resumption of the lender of last resort facility will see the interbank market coming back to life again to address liquidity problems.

5.4.2 Solutions to Non-performing Loans

Bank risks cannot be looked in isolation. Once a bank has experienced non-performing loans, chances are higher that liquidity problems will follow and reputational issues thereafter. As such, banks should keep bad loans at very minimum levels for them to survive.

5.4.2.1 Conservative Lending

Banks should not be over anxious for profits. The motive behind lending should be balanced and guided by credit manuals to ensure that the bank is not exposed to non-performing loans. Banks should not lend for the sake of lending. Proper credit assessment procedures should be adhered to without partiality. Bank aggressiveness in lending should be proportional to the bank's capital base and the robustness of credit collection procedures.

5.4.2.2 Avoid Directed Lending

The government should abstain from forcing banks to extend credit to certain sectors, which might be deemed risk by lending institutions. For instance, at one point in time, the government compelled banks to grant 30% of their loans to SMEs. Directed lending can be disastrous especially if the borrowers are not credit worthy.

5.4.2.3 Ensure Adherence to Good Corporate Governance Practices

The government should boost its attempts in ensuring that banks are adhering to good morals and corporate governance practices. This can be done by seeing to it that individuals do not acquire excessive interest in a banking institution. Although, controlling limits are provided in the Banking Act, adhering to them is another issue given a scenario of Reinnasance Merchant Bank (RMB) in which the limits were overridden by individuals causing excessive losses for the bank. Abuse of corporate structure can result in excessive insider lending which breeds non-performing loans.

5.4.2.4 Setting Up of a Credit Reference Bureau

The setting up of Credit Reference Bureaus (CRBs) is imminent given continued deterioration in asset quality. The government should accelerate its efforts of CRBs accreditation because of the burning need to harness the growth in non-performing loans. CRBs assist bank in credit risk management by eliminating information asymmetry, which results in moral hazard and adverse selection.

5.5 Suggestions for future studies

The research focused on various strategies that are being employed by Zimbabwean commercial banks to survive in the multiple currency regime. It is the researcher's opinion that future researchers may go an extra mile to unveil factors that are influencing survival of other financial institutions such as building societies, microfinance firms, asset management companies, and merchant banks. Apart from that, there is also need for future studies to incorporate other variables that may explain bank performance in the dollarized economy. These variables include capital structure, government regulation, corporate governance, number of branches and ownership. More to it, the researcher suggests that future researchers may need to analyse the determinants of bank performance by using either net interest margin or return on equity as a proxy for bank performance.

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Appendix B: Questionnaire guide for head credit-risk management division

(Instructions)			
May you please Tick in the box provided			
QUESTION NUMBER	QUESTIONS AND FILTERS		CODING
	BACKGROUND INFORMATION		
1	Indicate the number of years you have served in the credit division of this bank.		<input type="text"/> <input type="text"/> <input type="text"/>
2	Indicate the ownership of your institution. Foreign <input type="checkbox"/> Domestic <input type="checkbox"/> State Owned <input type="checkbox"/>		Foreign 1 Domestic 2 State 3
	RESEARCH QUESTIONS		
3	How would you describe your bank's lending approach in the multiple currency regime? Aggressive <input type="checkbox"/> Moderate <input type="checkbox"/> Passive <input type="checkbox"/>		Aggressive 1 Moderate 2 Passive 3
4) May you rank the following clients based on your preference to extend credit to them. 1 st represent most preferred and 4 th representing less preference.			
	1 st	2 nd	3 rd
Individuals			
Corporates			
SMEs			
Government			
5) Which of the following loan maturities are you prioritising? Rank them in order of priority from 1-3 where 1 is standing for much preference and 3 standing for less			

preference.			
	1	2	
Short term			
Medium term			
Long term			
6) Indicate in order of preference the basis upon which your extent credit to its clients.			
	Not Preferred	Less Preferred	Preferred
Cash flow based lending			
Collateral based lending			
Lending based on balance sheet strength			
Lending to existing clients			

7) Which loan products are you offering to your clients?

.....

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8) What factors does your bank consider in pricing its loans?

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.....

9) What factors does your bank takes into account before extending a credit facility?

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Thank you for your support!

Appendix C: Interview Guide for head treasury division

a) Background Information

- i. When was your bank established in Zimbabwe?
- ii. For how long have you served the bank as the head of treasury activities?

b) Liquidity management strategies

- i. What are your main sources of funds?
- i. Which measures are you putting in place to mobilise deposits?
- ii. How is your bank encouraging savings?
- iii. What liquidity management strategies is your bank practising given a liquidity constrained environment?

c) Investment Strategies

- i. In which markets are you investing your funds?

d) Compliance Strategies

- i. How have you managed to remain well capitalised?
- ii. How does your bank ensure that it complies with regulatory directives?

Appendix D: Interview Guide for head finance department

a) Background Information

- i. Is your bank listed on the stock exchange?

b) Funding Strategies

- i. How is your bank funding its operations in the multiple currency era?
- ii. How does your bank ensure that contingent funding sources are always feasible at any given time?

c) Revenue Sources

- i. Which sources of revenue does your bank rely upon?
- ii. What strategies have you put in place to find alternative revenue sources?

Appendix E: Interview Guide for head marketing department.

a) Marketing Strategies

- i. How does your bank distribute services to its clients?

b) Advertising

- i. Which forms of media does your bank employ in advertising its products and services?
- ii. How does your bank determine the appropriate time to make an advertising campaign?

c) Product Innovation

- i. How does your bank come up with new products?
- ii. How does your bank improve the uptake of new products?

d) Strategies to maintain public confidence

- i. What mechanisms have you adopted to foster public trust in your bank?
- ii. What schemes does your bank employ in maintaining good relations with its clients?
- iii. How is your bank ensuring that its customers are always satisfied?

Appendix F: Interview Guide for head branch operations

a) Strategies to lure customers from competitors

- i. What measures have you adopted to ensure that you remain competitive ahead of your competitors?

b) Strategies to improve service delivery

- i. What strategies have you put in place to improve service delivery to your customers?
- ii. How are you improving the competency of your employees?
- iii. How are you motivating your employees?

c) Cost reduction strategies

- i. What mechanisms have you put in place to reduce your costs of operations?

Appendix G: Raw Data Set

Annual Data for 12 Commercial Banks

bank	year	roa	avlr	ldr	cad	size	infl	me	npl
1	1	0.062	0.285	0.995	0.245	7.776	-7.700	0.009	0.273
1	2	0.045	0.306	0.627	0.121	8.269	3.200	0.044	0.134
1	3	0.008	0.306	0.816	0.081	8.685	4.900	0.037	0.187
1	4	0.079	0.248	0.818	0.073	8.693	2.910	0.036	0.068
2	1	0.013	0.285	0.210	0.122	8.468	-7.700	0.034	0.143
2	2	0.020	0.306	0.495	0.077	8.615	3.200	0.057	0.181
2	3	0.081	0.306	0.970	0.137	8.589	4.900	0.131	0.133
2	4	0.081	0.248	0.474	0.182	8.581	2.910	0.110	0.138
3	1	0.008	0.285	0.309	0.086	8.307	-7.700	0.077	0.150
3	2	-0.006	0.306	0.324	0.073	8.538	3.200	0.092	0.181
3	3	0.036	0.306	0.998	0.072	8.558	4.900	0.340	0.142
3	4	0.036	0.248	0.475	0.089	8.549	2.910	0.033	0.124
4	1	0.038	0.285	0.726	0.038	7.989	-7.700	0.054	0.130
4	2	0.051	0.306	0.659	0.124	8.214	3.200	0.062	0.121
4	3	0.026	0.306	0.664	0.102	8.259	4.900	0.103	0.234
4	4	0.026	0.248	0.766	0.108	8.258	2.910	0.103	0.130
5	1	0.026	0.285	0.261	0.133	8.161	-7.700	0.008	0.495
5	2	0.045	0.306	0.627	0.121	8.269	3.200	0.009	0.342
5	3	0.034	0.306	0.752	0.124	8.226	4.900	0.094	0.324
5	4	0.029	0.248	0.741	0.141	8.293	2.910	0.037	0.391
6	1	0.021	0.285	0.697	0.051	8.735	-7.700	0.042	0.208
6	2	0.029	0.306	0.730	0.068	8.885	3.200	0.342	0.217
6	3	0.035	0.306	0.830	0.077	8.997	4.900	0.093	0.257
6	4	0.043	0.248	0.900	0.081	8.897	2.910	0.093	0.191
7	1	-0.004	0.285	0.685	0.228	7.949	-7.700	0.006	0.236
7	2	0.006	0.306	0.677	0.074	8.179	3.200	0.072	0.420
7	3	0.005	0.306	0.761	0.083	8.178	4.900	0.077	0.450
7	4	0.005	0.248	0.763	0.088	8.178	2.910	0.019	0.313
8	1	-0.003	0.285	0.959	0.205	7.563	-7.700	0.016	0.344
8	2	0.010	0.306	0.923	0.257	7.796	3.200	0.018	0.309
8	3	0.098	0.306	1.012	0.250	7.978	4.900	0.236	0.144
8	4	0.087	0.248	2.349	0.179	7.999	2.910	0.036	0.183
9	1	-0.069	0.285	0.398	0.167	7.890	-7.700	0.047	0.247
9	2	0.054	0.306	0.653	0.169	8.187	3.200	0.034	0.293
9	3	0.032	0.306	0.684	0.148	8.368	4.900	0.047	0.191
9	4	0.032	0.248	0.646	0.138	8.370	2.910	0.290	0.182
10	1	0.079	0.285	0.865	0.224	7.612	-7.700	0.083	0.060
10	2	0.077	0.306	0.765	0.154	8.023	3.200	0.093	0.016
10	3	0.030	0.306	0.958	0.184	7.829	4.900	0.098	0.152
10	4	0.099	0.248	2.200	0.122	8.226	2.910	0.009	0.135
11	1	0.001	0.285	0.664	0.294	7.345	-7.700	0.340	0.144
11	2	0.023	0.306	0.694	0.244	7.722	3.200	0.002	0.127
11	3	0.018	0.306	0.833	0.148	8.054	4.900	0.147	0.023
11	4	0.018	0.248	0.931	0.136	8.054	2.910	0.008	0.022
12	1	-0.012	0.285	0.566	0.179	7.561	-7.700	0.082	0.133
12	2	0.066	0.306	1.999	0.228	7.754	3.200	0.298	0.131

