

Comment on “Zombiefirmen: Ein Schatten über der Wirtschaft” by Christoph A. Schaltegger and Laura Zell

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Research focus and main results

Leaving an era of zero interest rates behind, CHRISTOPH SCHALTEGGER and LAURA ZELL take the opportunity to examine the trends of “zombification”. Their analysis centers on publicly listed companies in Switzerland that may struggle to meet borrowing obligations. This matter assumes particular importance in the Swiss context given the substantial bank financing of the private sector.

Their study, based on the Crux of Capitalism database, focuses on 288 publicly listed Swiss firms from 2005 to 2022 (excluding financial and real estate sectors). Following the zombie definition of ADALET MCGOWAN et al. (2018), Schaltegger and Zell highlight an increasing trend in the number of zombie firms in Switzerland. In 2022, 13.8% of publicly listed firms are unable to meet their borrowing obligations, a stark increase from the approximately 4% observed in 2005. The majority of listed firms have interest coverage ratios of around 1.5, with a noticeable drop below this threshold, indicating their struggle to remain profitable and competitive. From a sector perspective, the materials and healthcare sectors exhibit the highest share of zombie firms, ranging between 16% and 18%.

The authors argue that while the short-term impact of COVID-19 stimulus packages was beneficial in protecting jobs and livelihoods, it has worsened the zombification problem within the economy. The resurgence of bankruptcy openings in 2022 coincides with the tapering of stimulus packages and the increase in interest rates. Highlighting the necessity of unviable business models exiting the market, the authors stress the significance of a resilient financial sector in reversing the zombification trend in Switzerland.

Assessment of the paper’s findings

The authors make key contributions in two primary areas: the geographical focus and the interconnectedness with the financial sector. Initially, the paper delves into the zombification phenomenon observed in publicly listed firms in Switzerland, addressing an issue that, despite its significance to the Swiss economy, has not undergone comprehensive analysis to date. Contrary to Switzerland's perception

as a robust and stable economic entity, the research underscores its sensitivity to the global trend of zombification, although not to the extent noticed in other major economies.

Secondly, the paper goes beyond a mere examination of the rising prevalence of zombie firms, establishing connections between zombification and the pivotal role played by financial institutions. Given the substantial contribution of Swiss financial institutions to the nation's economic vitality, the fulfilment of borrowing obligations of firms headquartered in Switzerland becomes increasingly critical for the country. The synthesis of the rising number of zombie firms and the centrality of Switzerland's financial institutions in the economic landscape highlights a compelling nexus, which deserves further research.

This leads to another prominent aspect of the paper, which lies in its characterization as an "overview study" — a designation it aptly fulfils. Shedding light on the development of zombie firms on both a national and sectoral scale, and delving into bankruptcy rates and debt crises, establishes a solid foundation for subsequent research. To provide a holistic assessment of the Swiss economy, it is crucial to provide numbers of zombie firms among non-listed firms. Acknowledging the challenge posed by the limited accessibility of financial data for non-listed firms, the proposition to construct a dedicated database for Switzerland emerges as a central contribution.

Next, an analysis of the proportion of distressed firms within banks' portfolios in Switzerland could serve to validate the paper's hypothesis that banks facing pressure tend to extend loans more liberally to zombie firms. The empirical findings could pave the way for a reconsideration of existing insolvency laws and the efficacy of policies aimed at resolving non-performing loans. This aligns seamlessly with the overarching message of the paper — the pivotal role of competent credit lending to ensure the long-term health of the Swiss economy.

The metric deployed to identify zombie firms is the ratio of operating income to total interest and related expenses. While SCHALTEGGER and ZELL align with the zombie identification methodology of ADALET MCGOWAN et al. (2018), they depart from the conventional binary classification of firms as either zombies or not (based solely on whether the interest coverage rate falls above or below one). Instead, the paper acknowledges different definitions within the existing literature, in line with variations in capital structure across regions and sectors. To address this, SCHALTEGGER and ZELL include a lower (interest coverage = 0.5) and upper bound (interest coverage = 1.5) in their analysis. The overarching trend reveals a consistent uptick in the survival of zombie firms, with a higher proportion of total listed firms within the interest coverage ratio bounds between 2019 and 2022

(as well as during the period from 2010 to 2013). Consequently, while 13.8% of Swiss firms carry the label of zombie in 2022, an additional approximate 2% are likely to turn into this status, registering an interest coverage ratio between 1 and 1.5 in 2022.

Certainly, considering the recent trend of interest rates getting back to “normal”, it would be helpful to study how the zombification situation has changed in the quarters of this year and its impact on the Swiss economy. Based on what we have seen in this paper, it is likely that those firms SCHALTEGGER and ZELL identified with an interest coverage ratio between 1 and 1.5 are the ones struggling to pay their interest payments in 2023. It would be intriguing to see if these companies can adapt their business plans to become successful again or if they end up closing down in the medium to longer term. Observing this could offer valuable lessons, especially within specific industries.

This paper plays a crucial role in addressing the issue of zombie firms within the Swiss economy. Positioned as an overview study, it not only lays the groundwork for future research but also holds immediate relevance for Switzerland. With the ongoing shift in monetary policies, research on zombie firms faces an opportune moment to test the hypothesis that higher interest rates lead to a decline in zombie firms, in Switzerland and other large economies.

References

- ADALET MCGOWAN, MÜGE, DAN ANDREWS, und VALENTINE MILLOT (2018), The walking dead? Zombie firms and productivity performance in OECD countries, *Economic Policy* 33 (96), pp. 685–736.

