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Penalties and Corporate Governance within State Owned Enterprises in Zimbabwe: A Moderation Analysis

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Abstract

The paper investigates how penalties influence the effectiveness of corporate governance in improving state owned enterprises (SOEs) performance. Grounded in agency and stakeholder theories, the study employs moderated multiple regression analysis on data collected from executive managers, board members and customers across 52 SOEs. Results indicate that penalties partially strengthen the relationship between adherence to governance frameworks and organisational performance, particularly in areas like internal controls and customer orientation. With the inclusion of interaction effect of penalties in the relationship between *internal controls* and *SOEs performance*, the value of R Squared (R^2) increased from 0.218 to 0.231, and that of adjusted R Squared also increased from 0.212 to 0.222. Similarly, with the inclusion of interaction effect of *penalties* in the relationship between *customer orientation* and *SOEs performance*, the value of R Squared (R^2) increased from 0.794 to 0.797, and that of Adjusted R Squared also increased from 0.792 to 0.794. On the other hand, *penalties* work as an independent variable, instead of a moderator, in influencing the relationship between *transparency* and *SOEs performance*. The study shows that with the inclusion of interaction effect of *penalties* in the relationship between *transparency* and *SOEs performance*, the value of R Squared (R^2) increased from 0.387 to 0.390, and that of Adjusted R Squared increased from 0.382 to 0.383. However, with the inclusion of the interaction effect of *penalties* in the relationship between *board overview* and *SOEs performance*, the value of R Squared (R^2) remained the same at 0.391, while that of Adjusted R Squared decreased from 0.387 to 0.384. Also, with the inclusion of the interaction effect of *penalties* in the relationship between *operational control* and *SOEs performance*, the value of R Squared (R^2) remained the same at 0.473, and that of Adjusted R Squared decreased from 0.469 to 0.467. Hence, the moderating effect of penalties is not uniform across all governance dimensions, highlighting the need for context-specific enforcement mechanisms. The paper recommends legislative reforms to incorporate enforceable, benchmarked penalties into Zimbabwe's corporate governance structures to ensure improved compliance and accountability across SOEs.

Key words: State owned enterprises, performance, corporate governance, penalties.

Introduction

According to SERA (2020), many SOEs in Zimbabwe continued to post unsatisfactory results despite the existence of corporate governance regulatory frameworks and codes. As a percentage of GDP, evidence from 107 SOEs established to deliver critical services across various sectors, including infrastructure, utilities, finance, manufacturing, natural resources, and services enterprises demonstrates that their performance has been in decline, from 40% of GDP in the mid-1980s to under 10% in 2020 (SERA, 2020). Previous efforts by Government to reverse poor performance of SOEs through the introduction of initiatives to commercialise and privatise were not so successful, posing questions about the efficacy of the corporate governance regulatory framework for SOEs in Zimbabwe. Reports to Parliament by the Office of the Auditor General (OAG, 2018) highlighting a plethora of corporate governance malpractices across SOEs in Zimbabwe justifies conduct of research focused on the impact of corporate governance on SOEs performance. The problem points to the need for strengthening the existing governance framework. Nakpodia *et al* (2018), citing research studies in Nigeria, identify benchmarked penalties, among other factors influencing regulatory compliance. Little evidence exists about how to strengthen the governance framework, as prior studies focused on the direct cause-effect link between corporate governance and organisational performance (Nyakurukwa, 2021) without bringing in the moderating effects of penalties on this relationship. This study posits that penalties for failure to comply with the governance framework could aid in enforcing compliance. In this regard, the absence of penalties in the existing corporate governance regulatory frameworks in Zimbabwe presents the research gap that this study seeks to fill by empirically testing the moderating effect of penalties, a previously under-explored variable in literature on corporate governance in SOEs in Zimbabwe. Penalties can catalyse or strengthen the effect of the corporate governance framework on the performance of public entities in Zimbabwe, thereby addressing the existing knowledge lacuna. The contribution to literature and theory is the new finding on the moderating effects of penalties on the relationship between corporate governance and performance of SOEs in Zimbabwe.

The structure of the paper outlines the objectives of the study and the underpinning research hypothesis. This is followed by the review of the underpinning theoretical framework, and the relevant literature relating penalties to the corporate governance regulatory framework. The conceptual approach for the study is drawn from this in the face of growing corporate governance failures, amidst

mounting calls to review the corporate governance regulatory approach and regulations (Aspan, 2017). The methodology appropriated in the study is highlighted before the presentation and discussion of the results from the research study findings. In conclusion, a discussion on recommendations in light of the results and the areas for future research is proffered.

Objectives

The objective of the study was to determine the extent to which penalties moderate on the relationship between corporate governance and performance of SOEs in Zimbabwe. Pursuant to this, the research hypothesis is that:

H1: Penalties moderate the relationship between compliance with the corporate governance regulatory framework and SOEs performance in Zimbabwe with a positive effect.

Literature Review

This section presents the review of literature for the study.

3.1 Corporate Governance and Penalties

3.1.1 Effectiveness of Penalties

Regulators and government officials rely on corporate regulations to enact penalties with varying severity levels that establish corrective and preventive controls (Brocke *et al.* 2021). Nakpodia *et al.* (2018) observe that a primary consideration in corporate governance regulation is the certainty and severity of punishment, as well as consistency in applying certainty of punishment. Furthermore, outdated regulations are found to influence executives' disposition regarding the severity of regulatory punishment and create loopholes that undermine effectiveness (Tsoukas *et al.* 2011). Hence, some of the penalties in a country's corporate governance regulatory framework have limited effect because the regulation's strength diminishes over time. The problem with time passage is that sanctions lose their severity. In particular, currency loss of value due to inflation and an unstable exchange rate regime creates socio-economic environments that allow executives to bear perceived severe penalties (Cornish and Clarke, 2016). Benchmarked penalties should relate to such variables as repeat offence, type of organisation, and stakeholders affected, amongst others, and should inform a scenario-based penalty strategy that may deter executives from governance abuses.

According to Al-Bassam *et al* (2018), the efficacy of regulatory frameworks is cited in terms of the extent of impact on operational processes, internal controls, governance standards of risk management, compliance, transparency, board oversight, accountability, innovation, quality service and responsiveness, in line with the principles of results-oriented governance and management. Hence, the mere existence of corporate governance regulatory frameworks is viewed as meaningless when they are not effective (Ferry and Murphy, 2018). Effectiveness is not measured in terms of the existence of boards or systems, rather it is concerned with the results they produce. Khudir and Ali (2019) highlight that it is corporate governance best practice to ensure the board, related systems and policies are effective. The robustness of corporate governance regulatory framework is an essential constituent for promoting sound corporate governance in general, and the extent to which an entity practices sound governance in particular (Deliu, 2020; Nakpodia *et al.* 2018). An appropriate legal framework should be put in place to ensure corporate governance rules and regulations are held. Having a sound corporate governance regulatory framework is not adequate with Naidoo (2019), concurring on the need for rigorous enforcement of the regulatory framework.

3.1.2 Challenges in Developing Contexts

In many developing economies, weaker institutional settings are seen as conducive to manipulation of state and corporate machinery in desired directions, with Nakpodia *et al* (2018) exposing how corporate governance practices in Nigeria mirror elites' preferences, making it crucial to examine whether the benefits of circumventing governance rules exceed related penalties in weak institutional environments. Uncertainty in administering penalties, underpinned by such factors as political interference, political godfatherism, corruption, posing questions over who regulates the regulator, and passive whistleblowing, define how the uncertainty of punishment influences executives' adherence to the regulatory framework.

While findings by Walters and Morgan (2019) indicate that the certainty of punishment deters infractions, the influence wielded by politicians impacts the dispensation and prospect of enforcement (Favotto and Kollman, 2021). There are also observations by Nakpodia *et al* (2018) of increasing practices by entities to recruit politicians onto corporate boards, with most of these appointments neither complying with the laid down processes nor the appointments based on

merit. Two reasons are given as mostly informing such recruitment, first to attract government patronage, and second to have a go-to person in Government.

In the absence of penalties, managers may **ignore stakeholder interests**, especially in SOEs where political appointees feel shielded from accountability (Okhmatovskiy *et al.* 2021). Furthermore, Arthur and Busenitz (2003) posit that agency problems are exacerbated by mis-reporting and rent-seeking behaviours, leading to unchecked inefficiencies in service delivery. Also, board oversight is **undermined** in environments where loyalty to appointing authorities supersedes performance (Fitria, 2019). Furthermore, when **compliance is informal**, governance becomes reactive rather than preventive (Ruwanti *et al.* 2019).

3.1.3 Gaps in Empirical Evidence

Schäfer and Krieger (2022) highlight that while much of the literature emphasises institutional enforcement characteristics and the functioning of oversight bodies, such as the Public Company Accounting Oversight Board in the United States, the specific deterrent impact of penalties is overlooked. Hall (2025) argues that without meaningful consequences, corporations treat regulatory violations as mere operational costs, weakening governance frameworks. In developing settings, research underscores how ineffective enforcement, including the lack of robust penalties, undermines corporate governance reforms. Mureya and Mupambireyi (2022) stress that systemic issues like corruption and political inertia further exacerbate the problem, highlighting the importance of well-structured penalties. Wu *et al.* (2021) examine this issue and suggest that empirical evidence remains inconclusive, underscoring the need for further investigation. Scholars also identified under-research on enforcement mechanisms, including penalties, as one of the “seven gaping holes” in the current corporate governance literature, with Gordon (2023) calling for more empirical work on how sanctions influence governance behaviours and compliance. This further strengthens the case for moderation analysis of penalties for non-compliance with corporate governance regulations across SOEs in Zimbabwe.

3.2 Theoretical Framework

This study adopted a multi-faceted theoretical approach anchored on agency and stakeholder theories, while also acknowledging the contributions of stewardship and organisational/business ethics theories. This is consistent with Aguilera *et al.* (2019) who point that an effective corporate governance framework requires

an integrated application of these theories. The behaviour of agents (managers and boards) and their responsiveness to regulatory governance frameworks are strongly influenced by whether penalties - such as sanctions, audits, fines, dismissals, or prosecution are absent in the regulatory environment. Theories on corporate governance offer insights into how behaviour shifts, dependent upon the strength of enforcement mechanisms.

In this study, penalties are considered within the context of agency theory's contractual setting and relationships where the principals (SOEs shareholders) engage the agent (managers and board members) to perform services that require the agent to make decisions on behalf of the principals. An insight from agency theory is that "corporate actors do not engage in criminal activity to benefit the firms for which they work but to benefit themselves (Macey, 1991). Drawing from agency theory's relationship between agents and the principal, penalties and other sanctions would provide a strong incentive for managers - the agents - to strengthen internal organisational monitoring and enforcement mechanisms for preventing officers and employees from committing actions that undermine governance and SOEs performance. This way, the threat of penalties for non-compliance with the corporate governance regulations and sub-optimal organisational performance can also ameliorate agency costs, in particular monitoring costs, that are incurred on account of divergent interests between the principals (shareholders) and agents (managers).

A robust corporate governance regulatory framework which is rigorously enforced has a direct impact on the extent to which entities embrace corporate governance core principles which include, operational processes, internal controls, transparency, board oversight and customer orientation (Dasuki and Lestari, 2019). Sound corporate governance takes into consideration various stakeholders' interests as underscored by the stakeholder theory. Key stakeholders of an entity include shareholders, customers, employees, suppliers, Government, senior management executives and communities. It is important to highlight that the efficacy of corporate governance in SOEs should be interpreted by stakeholders. Stakeholders in this context have been restricted to customers of SOEs' products and services. This was necessitated by the need to manage the data.

3.2.1 Behavioural Implication of Penalties Across Theories

The behavioural implication of penalties across theories is presented in Table 1.

Table 1 Behavioural Implication of Penalties

Theory	Without Penalties	With Penalties	Implication for SOEs
Stakeholder Theory	Stakeholder interests may be overlooked in favour of short-term benefits or political agendas (Naciti, 2019)	Greater accountability to stakeholders as managers seek to avoid reputational and legal consequences (Islam & Bhuiyan, 2019)	Penalties strengthen participatory governance and public trust
Agency Theory	Agents act opportunistically, increasing agency costs and information asymmetry (Sun et al. 2020)	Penalties deter misalignment of interests and enhance monitoring (Fitria, 2019)	Stronger internal control mechanisms become necessary to align management with public interest
Stewardship Theory	Assumes intrinsic motivation and ethical commitment, but this may be exploited in weak control environments (Smullen & Thiel, 2021)	External enforcement complements moral obligation, especially when intrinsic motivation is insufficient (Alam et al. 2019).	Reinforces ethical stewardship with enforceable accountability mechanisms
Organisational/ Business Ethics Theory	Ethical culture depends solely on leadership tone and informal norms, risking ethical drift (Badshah & Bulut, 2020)	Penalties institutionalise ethical expectations and increase compliance with codes of conduct (Prewett & Terry, 2018)	Ethics become enforceable standards rather than abstract ideals

According to Sun *et al.* (2020), agents tend to behave more responsibly in order to avoid sanctions, leading to greater alignment with performance goals. Masud *et al.* (2018) aver that transparency improves when requirements for accurate reporting are enforced through audits and legal consequences. On the other hand, Alam *et al.* (2019) posit that boards exercise vigilant oversight where performance is monitored. Hence, the introduction of enforceable penalties is essential to translating theories on corporate governance into measurable operational behaviour across SOEs. Drawing from the normative guidance of stakeholder, stewardship and ethical theories, penalties pose real consequences for non-compliance, shifting governance perspectives from aspiration to accountable performance (Du Plessis *et al.* 2018).

3.3 Conceptual Framework

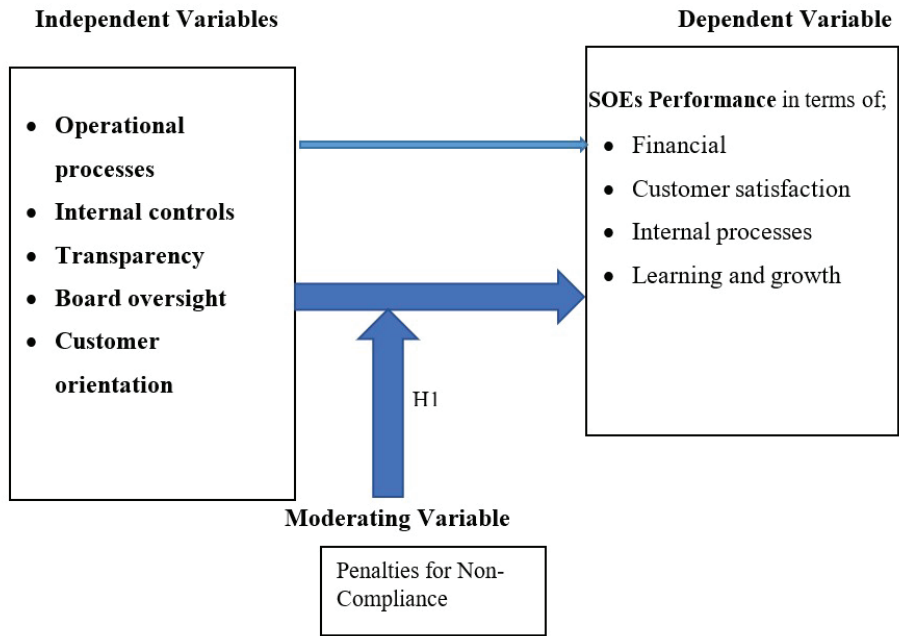
In the study, the development of conceptual framework is against growing corporate governance failures amidst mounting calls to review corporate governance regulations and regulatory approach (Aspan, 2017). A central feature of these calls is the need to increase regulation (Nakpodia *et al.*, 2018), necessitating further research on enhancing understanding the drivers of attitudes towards the regulatory framework. Given that regulators are responsible for setting and policing governance regulations, the study also seeks to investigate interface between the regulatory framework and SOEs performance.

Furthermore, the study is also interested in bringing to the fore the moderating effects of penalties on corporate governance and SOEs performance. A stakeholder perspective was undertaken. Such research will provide deeper insights into the extent to which corporate governance is strengthened through penalties and proffer recommendations on how the governance of SOEs could be improved.

The framework has penalties as a moderating variable imposed on failure with the regulatory framework. The variable is argued to be catalysing or enhancing moderating variable. It is hypothesised that they help strengthen corporate governance and SOEs performance. Figure 1 depicts the diagrammatic presentation of the study's conceptual framework.

Figure 1: Conceptual Framework

3.3.1 Independent Variables



Drawing from literature (Al-Bassam *et al*, 2018), the variables of the corporate governance regulatory framework are measured in line with operational processes, internal controls, governance standards of risk management, compliance, transparency, board oversight, accountability, innovation, quality service and responsiveness. In this study, the independent variables measuring adherence to the **corporate governance regulatory framework** are defined in line with five metrics, namely: *operational processes, internal controls, transparency, board oversight and customer orientation*. Questions relating to the above metrics of the independent variable were derived from the standard questionnaire of the Association of Southeast Asian Nations (ASEAN, 2024).

3.3.2 Dependant Variable

The dependent variable, **SOEs performance**, was quantified on the basis of four metrics namely, financial performance, learning and growth, internal process, and customer satisfaction (Kaplan and Norton, 1992). Financial performance measures to survive, succeed and prosper relate to cash flows, sales and revenue growth, leverage, working capital, market share, return on investment, net profit margin and operating income, and growth. Learning and growth perspective was measured with respect to development and adoption

of new technologies, process times to market, and product focus in terms of the introduction of new products and services.

Internal process measures focused on the critical internal operations that enable the SOE to satisfy stakeholders' needs and expectations. The measures for the business processes that have the greatest impact on SOE performance relate to cycle time, quality, unit costs, employee skills, and productivity, adoption of critical technology capabilities and core competencies needed to ensure performance; clear targets for decisions and actions, and improvement activities that contribute to SOEs overall performance; responsive operational information systems, e.g. for on-time delivery; existence of design productivity efficiencies; new product introduction.

Customer orientation perspectives that reflect SOE performance from its customers' eyes were related to the time taken to deliver on customers' needs, quality and value for customers with regard to defect levels of products and services, performance and service in terms of development and supply of innovative products tailored to meet customer needs. The study identified the appropriate measures to include ranking by key customers to gauge the responsive supply of products and services in terms of SOEs' achievements of their goals and customer satisfaction. The following section focuses on the moderator variables in more detail.

3.3.3 Moderator Variable

The moderator variable was **penalties** for non-compliance. The focus of the study on the measurement and quantification of penalties, as a moderator variable, was on elements that serve as sub-variables applicable to both executive management and non-executive directors. The sub-variables for penalties relating to non-performance are non-financial, such as warnings, demotion, dismissal; financial, such as remuneration deduction and non-payment of performance bonuses, fees; judicial sanctions, ranging from fines to custodial.

3.3.4 Hypothesis Relationships

Drawing from Hypothesis H1, Table 2 presents, independent variables, moderator variable, dependent variable and the anticipated relationships among them.

Table 2 Hypothesis Relationships

Hypothesis	Independent Variable	Moderator Variable	Dependent Variable	Expected Relationship
There is moderating effect of penalties on the relationship between operational control and SOEs performance.	Operational Processes	Penalties for non-compliance	SOEs performance	Effective operational processes positively influence SOEs performance; penalties strengthen this effect.
Penalties strengthen the relationship between internal controls and SOEs performance.	Internal Controls	Penalties for non-compliance	SOEs performance	Strong internal controls improve SOE performance; penalties enhance this relationship.
There is moderating effect of penalties on the relationship between transparency and SOEs performance.	Transparency	Penalties for non-compliance	SOEs performance	Transparency positively impacts SOE performance; penalties intensify this effect.
There is moderating effect of penalties on the relationship between board oversight and SOEs performance.	Board Oversight	Penalties for non-compliance	SOEs performance	Strong board oversight leads to better performance; penalties reinforce this linkage.

Hypothesis	Independent Variable	Moderator Variable	Dependent Variable	Expected Relationship
Penalties strengthen the relationship between customer orientation and SOEs performance.	Customer Orientation	Penalties for non-compliance	SOEs performance	Customer-centric approaches enhance SOE performance; penalties moderate this effect positively.

Source: *Author compilation (2025)*

Methodology

According to SERA (2020), Zimbabwe has 107 SOEs. The study population encompasses commercial, non-commercial and regulatory entities. The total participants' population comprises SOEs' 535 top management (on average five per entity) and 1070 non-executive board members (on average ten per entity) adding to 1605 participants.

4.1 Sample and Sampling Procedures

Stratified simple random sampling method was used to sample the population. This was done by categorising entities into homogeneous groups, namely, commercial, non-commercial and regulatory entities. The State Enterprises Restructuring Agency (SERA, 2020) has it that Zimbabwe has 107 SOEs. A statistically significant sample of 52 SOEs was derived from this population using the Raosoft method of calculating sample size at 5% margin of error and 95% confidence level. This sample caters for the quantitative dimension of this study.

Participating SOEs were randomly selected to minimise bias. Furthermore, stratified random sampling was employed to select participants. Participants who responded to an online questionnaire were categorised as executive management and non-executive board members. From each SOE, two participants were executive management, while four were non-executive board members. Stratified simple random sampling was employed to ensure that the sample adequately reflected diversity within the SOEs.

Table 3 Sample of the Study

Category of Participants	Number of Participants
Executive management members	104 (2 participants x 52 SOEs)
Non-executive board members	208 (4 participants x 52 SOEs)
Customers of services and /or products	156 (3 participants x 52 SOEs)
TOTAL	468

Source: Author compilation (2024)

Customer participants were identified from SOEs clients and selected based on their direct usage of the services provided by the respective enterprises. Their responses reflected their satisfaction levels based on service experience, ensuring the reliability of customer-based feedback in the analysis. A total of 468 respondents was deemed sufficient for analysis. A G*Power analysis (Faul et al., 2009) for multiple regression with a medium effect size ($f^2 = 0.15$), significance level $\alpha = 0.05$, and power $(1-\beta) = 0.80$ indicated a minimum of 92 participants for five predictors. Thus, the sample of 468 provided strong statistical power to detect even small effects, enabling sub-group comparisons, and enhancing the reliability, validity and generalisability of findings, while supporting triangulation within the mixed methods design.

Quantitative data were collected using closed-ended questionnaire. In closed-ended questionnaires, the respondent is asked to select a response from among a list provided by the researcher. Closed-ended questions provide a greater uniformity of responses and are more easily processed with responses transferable directly into a computer format (Babbie and Mouton, 2005).

4.2 Reliability

The multi-dimensionality of the corporate governance and SOEs performance constructs necessitated testing the reliability of these constructs. Reliability is the ability of an instrument to produce consistent results whenever it is used repeatedly, using a representative sample and under similar conditions

(Gitomer *et al*, 2021). The internal consistency reliability was ascertained using the Cronbach Alpha coefficient. According to Kalkbrenner (2021), internal consistency is critical in ensuring that the questionnaire items measure the same construct and in making sure that reliable data can be used to make inferences and, hence, draw conclusions. Internal consistency values (Cronbach's Alpha coefficient) range from 0 to 1, where 0-0.49 show that reliability is weak, while values between 0.5 and 0.69 show acceptable reliability, values ranging from 0.7 to 0.89 represent very strong reliability, and values from 0.90 to 1 show excellent reliability. Having tested the internal consistency, the results are presented in Table 4.

Table 4 Reliability Statistics

Variable	No. of Items	Cronbach's Alpha
Internal Control	33	0.932
Board Overview	12	0.898
Operational Control	12	0.858
Customer Orientation	6	0.907
Transparency	6	0.799
Performance	6	0.951
Penalties	4	0.742
Incentives	4	0.721
Overall reliability	84	0.961

Source: **Author compilation** (2024)

The results in Table 4 show that the reliability, as represented by Cronbach's alpha coefficients, for corporate governance and SOEs performance, range from 0.721 to 0.951. This shows that the items for individual constructs measured the same construct and there were minimum random errors. The internal consistency for the overall questionnaire was accepted at 0.961, which is higher than the benchmark of 0.7 demonstrating the instrument's reliability. Hence, implying the data of this study can be used to make conclusions about the extent to which penalties strengthen corporate governance and SOEs performance in Zimbabwe.

Having satisfied the conditions of the tests of reliability of the constructs and the overall scale, further tests conducted to establish the validity of the questionnaire are presented in the following section.

4.3 Validity

This section outlines the validity tests conducted to assess the appropriateness of the instrument for collecting data on corporate governance and performance of SOEs. Validity, as an essential component of scale quality, refers to the degree to which an instrument measures what it is intended to measure (Surucu and Maslakci, 2021). To ensure scale validity, the study examined the content, construct, and predictive validity of the instrument. The *content validity* of the instrument was established through three key mechanisms. First, an extensive review of the literature related to corporate governance and SOEs performance was undertaken. Second, a pilot test was conducted to identify and address unclear, incorrect, or incomplete items. The pilot study involved a sample of 30 respondents who were excluded from the main study to mitigate potential biases. Third, the instrument was reviewed by subject matter experts, including both academic scholars and practitioners specialising in corporate governance and SOE performance, to validate its content prior to data collection. *Construct validity*, which assesses the instrument's capacity to accurately measure the constructs under study, was evaluated through convergent and divergent validity tests. Convergent validity was tested using Pearson correlation analysis to examine the associations between corporate governance constructs and SOE performance. Divergent validity was assessed to ensure that the corporate governance constructs were distinct from SOE performance constructs, also using correlation analysis. *Predictive validity*, which evaluates the instrument's ability to predict outcomes, was tested using regression analysis. The model included five dimensions of corporate governance as independent variables, penalties as moderating variable, and SOE performance as the dependent variable. Data collected via the Open Data Kit (ODK) were exported for processing and analysis to Statistical Package for the Social Sciences (SPSS, version 26). A moderated multiple regression (MMR) analysis was conducted using Hayes' PROCESS macro to evaluate the moderating effects of penalties.

Findings

Regression analysis with *penalties* as the moderating variable was used to address the principal objective of this study.

5.1 Regression Analysis With Moderation of Penalties

Various methods are utilised to measure the moderating effect of a variable on the relationship between an independent variable and a dependent variable. There is a sub-group analysis (Dijkman *et al*, 2009), moderated regression

analysis (Farooq and Vij, 2017), hierarchical regression analysis (Dawson, 2014) and the moderation conditional process analysis using the regression-based approach (Hayes, 2017).

The moderated regression analysis was used to analyse the effects of penalties on the relationships between the five corporate governance dimensions; *internal controls, board overview, operational control, customer orientation and transparency, and SOEs performance in Zimbabwe*. The method which determines the interaction effects of a moderating variable by calculating the product of the independent variable and a dependent variable was preferred for it is easy, simple and fast.

It was hypothesised that penalties strengthen the relationship between compliance with the corporate governance and SOEs performance in Zimbabwe. The results are presented in the next sub-sections.

5.1.1 Moderating Effects of Penalties on Internal Controls and SOEs Performance

To confirm whether penalties act as a moderating variable in the relationship between *internal controls* and *SOEs performance*, a regression analysis with moderation effect was used with results presented in Table 5. The following hypothesis was used.

H₁: Penalties strengthen the relationship between internal controls and SOEs performance in Zimbabwe.

Table 5 Penalties Effect on Relationship Between Internal Controls and SOEs Performance

Internal Control	Coefficient	T-statistic	p-value	R ²	Adjusted R ²	F Ratio
Model without Moderation Effect						
Constant	-1.201	-1.377	.170	0.218	0.212	35.872
Internal Control	0.434	7.872	.000			
Penalties	-0.159	-2.886	.004			
Model with Moderation Effect						
Constant	-1.254	-1.447	0.149	0.231	0.222	25.679
Internal Control	0.468	8.189	0.000			
Penalties	-0.200	-3.436	0.001			
Interaction	0.126	2.087	0.038			

Source: Author compilation (2024)

Table 5 above shows that with the inclusion of interaction effect of penalties in the relationship between *internal controls* and *SOEs performance*, the value of R Squared (R^2) increased from 0.218 to 0.231 and that of Adjusted R Squared also increased from 0.212 to 0.222. Hence, the adjusted R^2 value shows that about 22.2% of the variation in *SOEs performance* is represented by internal controls, whereas penalties work as a moderator. Furthermore, though still more accurate prediction about firm SOEs performance could be done ($F\text{-ratio} > 1$) with the inclusion of the interaction effect of *penalties* and *internal controls*, this accuracy has decreased as indicated by the $F\text{-ratio}$ from 35.872 to 25.679. Upon including the interaction term, the model remains statistically significant and meaningful. The analysis confirms that penalties significantly and positively moderate the relationship between internal controls and SOE performance in Zimbabwe. Finally, the model with moderation effect has a statistical significance ($p\text{-value}$) of 0.038 for the interaction effect, which shows that the null hypothesis of having no moderating effect of penalties on the relationship between *internal controls* and *SOEs performance* in Zimbabwe is rejected because the $p\text{-value}$ is less than the significance level used in the study at $p \leq 0.05$. Moreover, the regression coefficient (β) 0.126 for the interaction term is positive, suggesting that the presence of penalties strengthens the positive relationship between internal controls and SOEs' performance. Hence, *penalties* strengthen the relationship between *internal controls* and *SOEs performance* in Zimbabwe.

5.1.2 Moderating Effect of Penalties on Board Overview and SOEs Performance

To confirm whether penalties act as a moderating variable in the relationship between board overview and SOEs performance, a regression analysis with a moderation effect was used with results presented in Table 6. The following hypothesis was used.

H_1 : *There is a moderating effect of penalties on the relationship between board overview and SOEs performance in Zimbabwe.*

Table 6 Penalties on the Relationship Between Board Overview and SOEs Performance

Board Overview	Coefficient	T-statistic	p-value	R ²	Adjusted R ²	F Ratio
Model without Moderation Effect						
Constant	-.339	-.576	.565	0.391	0.387	82.596
Board overview	.620	12.354	.000			
Penalties	-.021	-.412	.681			
Model with Moderation Effect						
Constant	-.418	-.643	.521	0.391	0.384	54.896
Board overview	.620	12.317	.000			
Penalties	-.012	-.206	.837			
Interaction	-.017	-.290	.772			

Source: *Author compilation (2024)*

Table 6 shows that with the inclusion of the interaction effect of *penalties* in the relationship between *board overview* and *SOEs performance*, the value of R Squared (R²) remained the same at 0.391, but that of Adjusted R Squared decreased from 0.387 to 0.384. Hence, the adjusted R² value shows that about 38.4% of the variation in *SOEs performance* is represented by board overview, where *penalties* work as a moderator. Furthermore, though still more accurate prediction about *SOEs performance* could be done (F-ratio > 1) with the inclusion of the interaction effect of penalties and board overview, this accuracy decreased, as indicated by the F-ratio from 82.596 to 54.896. Finally, the model with moderation effect has a statistical insignificance (p-value) of 0.772 for the interaction effect, which shows that the null hypothesis of having no moderating effect of *penalties* on the relationship between *board overview* and *SOEs performance* is not rejected because the p-value is greater than the significance level used in the study at $p \leq 0.05$. Moreover, the significance of penalties shown in the model without moderating effect is at 0.681 which is not statistically significant at $p \leq 0.05$. In addition, the *regression coefficient* (β) -0.017 for the interaction term is very small and *negative*, indicating not only lack of statistical significance but also the absence of meaningful or positive directional effect. Hence, *penalties* do not work as an independent variable or a moderator in influencing the relationship between *board overview* and *SOEs performance*.

5.1.3 Moderating Effect of Penalties on Operational Control and SOEs Performance

To validate whether penalties act as a moderator in the relationship between *operational control* and *SOEs performance*, a regression analysis with moderation effect was used with results presented in Table 7. The following hypothesis was used.

H_1 : There is a moderating effect of penalties on the relationship between *operational control* and *SOEs performance*.

Table 7 Penalties on the Relationship Between Operational Control and SOEs Performance

Operational control	Coefficient	T-statistic	p-value	R ²	Adjusted R ²	F Ratio
Model without Moderation Effect						
Constant	461	.932	.352	0.473	0.469	115.202
Operational control	.683	14.694	.000			
Penalties	-.020	-.437	.662			
Model with Moderation Effect						
Constant	.634	1.100	.272	0.473	0.467	76.720
Operational control	.684	14.686	.000			
Penalties	-.039	-.693	.489			
Interaction	.033	.586	.558			

Source: **Author compilation (2024)**

Table 7 shows that with the inclusion of the interaction effect of *penalties* in the relationship between *operational control* and *SOEs performance*, the value of R Squared (R²) remained the same at 0.473 and that of Adjusted R Squared decreased from 0.469 to 0.467. Hence, the adjusted R² value shows that about 46.7% of the variation in *SOEs performance* is represented by *operational control*, where *penalties* work as a moderator. Furthermore, though still more accurate prediction about *SOEs performance* could be done (F-ratio > 1) with the inclusion of the interaction effect of penalties and operational control, this accuracy decreased as indicated by the F-ratio from 115.202 to 76.720. Finally, the model with moderation effect has a non-statistical significance (p-value) of 0.558 for the interaction effect which shows that the null hypothesis of having

no moderating effect of penalties on the relationship between *operational control* and *SOEs performance* is not rejected because the p-value is greater than the significance level used in the study at $p \leq 0.05$. Moreover, the significance of *penalties* shown in the model without moderating effect is at 0.662 which is statistically non-significant at $p \leq 0.05$. Additionally, the *regression coefficient* (β) 0.033 for the interaction term is *small and not directionally positive*, suggesting that even if the relationship was significant, the effect would be weak. Hence, *penalties* do not work as an independent variable or moderator in influencing the relationship between *operational control* and *SOEs performance* in Zimbabwe.

5.1.4 Moderating Effects of Penalties on Customer Orientation and SOEs Performance

To confirm whether penalties act as a moderating variable in the relationship between *customer orientation* and *SOEs Performance*, a regression analysis with moderation effect was used with results presented in Table 8. The following hypothesis was used.

H₁: Penalties strengthen the relationship between customer orientation and SOEs performance in Zimbabwe.

Table 8 Penalties on Relationship Between Customer Orientation and SOEs Performance

Customer Orientation	Coefficient	T-statistic	p-value	R ²	Adjusted R ²	F Ratio
Model without Moderation Effect						
Constant	-.618	-2.014	.045	0.794	0.792	495.119
Customer orientation	.914	30.873	.000			
Penalties	.094	3.175	.002			
Model with Moderation Effect						
Constant	-.295	-.833	.405	0.797	0.794	334.035
Customer orientation	.918	31.056	.000			
Penalties	.059	1.668	.097			
Interaction	.062	1.800	.031			

Source: Author compilation (2024)

Table 8 shows that with the inclusion of interaction effect of *penalties* in the relationship between *customer orientation* and *SOEs performance*, the value of

R Squared (R^2) increased from 0.794 to 0.797 and that of Adjusted R Squared also increased from 0.792 to 0.794. Hence, the adjusted R^2 value shows that about 79.4% of the variation in SOEs performance is represented by *customer orientation*, whereas penalties work as a moderator. Furthermore, though still more accurate prediction about firm SOEs performance could be done ($F\text{-ratio} > 1$) with the inclusion of the interaction effect of *penalties and customer orientation*, this accuracy decreased as indicated by the $F\text{-ratio}$ from 495.119 to 334.035. Finally, the model with moderation effect has a statistical significance ($p\text{-value}$) of 0.031 for the interaction effect which shows that the null hypothesis of having no moderating effect of *penalties* on the relationship between customer orientation and SOEs performance in Zimbabwe is rejected because the $p\text{-value}$ is less than the significance level used in the study at $p \leq 0.05$. Moreover, the regression coefficient (β) for the interaction term 0.062 is *positive*. Hence, *penalties* strengthen the relationship between *customer orientation and SOEs performance* in Zimbabwe.

5.1.5 Moderating Effect of Penalties on Transparency and SOEs Performance

To confirm whether penalties act as a moderating variable in the relationship between *transparency* and *SOEs performance*, a regression analysis with moderation effect was used with results presented in Table 9. The following hypothesis was used.

H_1 : There is a moderating effect of penalties on the relationship between transparency and SOEs performance in Zimbabwe.

Table 9 Penalties on Relationship Between Transparency and SOEs Performance

Transparency	Coefficient	T-statistic	p-value	R^2	Adjusted R^2	F Ratio
Model without Moderation Effect						
Constant	1.073	2.046	.042	0.387	0.382	81.146
Transparency	.600	12.240	.000			
Penalties	-.122	-2.484	.014			
Model with Moderation Effect						
Constant	1.261	2.293	.023	0.390	0.383	54.579
Transparency	.603	12.289	.000			
Penalties	-.143	-2.726	.007			
Interaction	.059	1.128	.260			

Source: *Author compilation (2024)*

Table 9 shows that with the inclusion of interaction effect of *penalties* in the relationship between *transparency* and *SOEs performance*, the value of R Squared (R^2) increased from 0.387 to 0.390 and that of Adjusted R Squared increased from 0.382 to 0.383. Hence, the adjusted R^2 value shows that about 38.3% of the variation in *SOEs performance* is represented by *transparency*, whereas *penalties* work as a moderator. Furthermore, though still more accurate prediction about *SOEs performance* could be done ($F\text{-ratio} > 1$) with the inclusion of the interaction effect of *penalties* and *transparency*, this accuracy decreased as indicated by the $F\text{-ratio}$ from 81.146 to 54.579. Finally, the model with moderation effect has a statistical significance ($p\text{-value}$) of 0.260 for the interaction effect which shows that the null hypothesis of having no moderating effect of *penalties* on the relationship between *transparency* and *SOES performance* is not rejected because the $p\text{-value}$ is greater than the significance level used in the study at $p \leq 0.05$. Additionally, the regression coefficient (β) 0.059 for the interaction term is small and positive. Moreover, the significance of *penalties* shown in model without moderating effect is at 0.014 which is statistically significant at $p \leq 0.05$. Hence, *penalties* work as an independent variable instead of a moderator in influencing the relationship between *transparency* and *SOEs performance*.

Discussion of Results

The results presented in section 5 of the regression analysis with the moderation effect of *penalties* reflected that the moderator variable of *penalties* has both statistically significant and non-significant positive moderation effects on the relationships between the independent variables, internal controls, board overview, operational control, customer orientation and transparency against the dependent variable, *SOEs performance* in Zimbabwe. The interaction effect (IE) statistics were as follows: internal controls (IE=0.126; $p=0.038$), board overview (IE=-0.012; $p=0.837$), operational control (IE=0.033; $p=0.558$), customer orientation (IE= 0.062; $p=0.031$) and transparency (IE= 0.059; $p=0.260$). The results of this study, therefore, concluded that *penalties* do partially strengthen the relationship between compliance with the corporate governance and *SOEs performance* in Zimbabwe.

Partial moderation occurs when the independent variable significantly affects the dependent variable *both with and without the moderator*, but the strength or direction of this effect changes when the moderator is introduced. In this case, the moderator serves to **strengthen or weaken** an existing relationship rather than **create** a new one. In contrast, a *complete moderation* occurs when

the relationship between the independent variable and the dependent variable exists *only when the moderator is present*; in other words, the independent variable has no significant effect on the dependent variable in the absence of the moderator. The moderator completely explains the strength and direction of that relationship. Therefore, the findings of this study indicate *partial moderation*, as penalties do not entirely determine the relationship between corporate governance variables and SOE performance. Instead, they *reinforce* certain relationships, notably *internal controls* and *customer orientation*, thereby improving performance outcomes when penalty mechanisms are effectively implemented. This suggests that while penalties are an important regulatory tool, their influence complements, rather than replaces the intrinsic effects of sound corporate governance practices.

The partial moderation effect of penalties suggests the need to strengthen the regulatory and enforcement ecosystem governing SOEs. Aligning the **Public Entities Corporate Governance Act** with more **enforceable sanctions** would eliminate ambiguity and ensure that non-compliance results in tangible consequences through fines, suspensions and other legal prosecution. Penalties should be accompanied by the institutionalisation and adequate resourcing of whistle-blower protection frameworks to empower employees to report wrongdoing without fear of reprisal (Rabbani, 2023). Furthermore, **internal audit and compliance functionaries** within SOEs should be empowered to detect and report violations proactively, ensuring that internal structures are adequately armed to strengthen the **regulatory and enforcement ecosystem** across SOEs.

The absence of significant moderation effects of penalties on operational control, board overview and transparency indicates that penalties influence corporate governance dimensions in Zimbabwe's SOEs unevenly. For operational control, performance is driven more by **managerial efficiency and administrative capacity** than by deterrence, as bureaucratic processes often insulate **operators** from external enforcement. The weak moderation on *board overview* likely reflects limited independence and accountability stemming from politically influenced appointments that dilute board responsiveness to sanctions. Similarly, penalties have little effect on *transparency* because disclosure gaps arise mainly from systemic reporting weaknesses and capacity constraints rather than deliberate non-compliance. Overall, these results suggest that penalties alone cannot enhance governance - performance linkages where institutional structures are weak; broader reforms to strengthen board autonomy, operational accountability and reporting capacity are essential for a more effective penalty regime.

The finding of the study supports review of Zimbabwe's current corporate governance regulatory framework, whose central element is the "comply-or-explain" system, under which SOEs not complying with the Public Entities Corporate Governance Act are largely required to provide explanation for non-compliance. Such a review would entail adoption of a rules-based approach to corporate governance that instils the framework's regulatory codes into law, with appropriate penalties on directors for non-compliance. Penalties could range from directors being liable to a fine, imprisonment or both. Benefits of the rules-based approach include the introduction of clarity in terms of what the SOE and directors must do to comply with the corporate governance regulations (International Auditing and Assurance Standards Board, 2012). Under this, there is no option to comply or explain why the requirements have not been followed, as there is in a principles-based system. This has the effect of limiting uncertainty regarding the standard of corporate governance, which can be a problem with a principles-based approach. By understanding the penalties and consequences of non-compliance, organisations can implement robust governance frameworks, mitigate risks, and safeguard their interests in an increasingly regulated business environment.

In exploring the relationship between corporate governance and financial penalties, Rabbani (2023) drew insights from corporate misconduct cases as Volkswagen's admission of installing emissions-cheating software and Boeing's 737 Max crisis and concluded that "high profile cases of corporate malfeasance, which often result in substantial financial penalties" serve as cautionary tales and provide valuable lessons for both businesses and regulators". The lesson in support of the findings of this study is that responsibility and accountability lie at the core of effective corporate governance and those who fall short of the corporate governance standards should be held accountable. Hence, regulators of corporate governance for SOEs in Zimbabwe would need to exercise stringent oversight and enforce penalties for corporate shortcomings and failures to ensure that boards and management exercise vigilant oversight and due diligence, pursuant to the quest for sustainable performance.

The study findings on penalties on SOEs executive and non-executive directors for violation of the corporate governance regulatory framework are consistent with agency theory perceptions on sanctions. An insight from agency theory is that "corporate actors do not engage in criminal activity to benefit the firms for which they work for, but to benefit themselves (Macey, 1991). Drawing from agency theory's relationship between the agent and the principal,

penalties and other sanctions would provide a strong drive for managers to strengthen internal organisational monitoring and enforcement mechanisms for preventing employees from committing actions that undermine governance and SOEs performance. This way, the threat of penalties for non-compliance with the corporate governance regulations and sub-optimal organisational performance can also ameliorate agency costs, in particular, monitoring costs, that are incurred on account of divergent interests between the principals and agents.

Conclusion and Recommendations

While penalties were found not to work as a moderator in influencing the relationship between SOEs performance and board overview, as well as operational control, the study findings indicate that:

- *Penalties strengthen the relationship between internal controls and SOEs performance in Zimbabwe.*
- *Penalties strengthen the relationship between customer orientation and SOEs performance in Zimbabwe.*
- *Penalties work as an independent variable instead of a moderator in influencing the relationship between transparency and SOEs performance.*

The finding of the study that penalties have a moderating effect on the relationship between corporate governance and performance of SOEs in Zimbabwe suggests the need for strengthening the penalty regime for non-adherence.

7.1 Policy Recommendations

At the policy level, the legal framework should unequivocally require that SOEs be subject to a clearly benchmarked penalty regime, firmly grounded in legislation addressing non-compliance with corporate governance requirements. The Government should, therefore, consider legislative amendments to the *Public Entities Corporate Governance Act* to explicitly define penalties for non-performance and governance violations. This entails the categorisation of performance standards aligned to performance contracts, as well as the institutionalisation of proportionate sanctions applicable across all SOEs.

7.2 Managerial Recommendations

At the managerial level, it is recommended that enforcement mechanisms target decision-makers within SOEs who fail to meet performance or governance standards. A graduated system of sanctions should be embedded within the

governance regulatory framework, ranging from corrective measures for minor breaches to dismissals of boards and management for persistent or severe non-performance. Furthermore, managerial performance-related penalties should be introduced to ensure accountability, deter misconduct and promote a culture of compliance and efficiency.

Limitations and Areas for Further Study

The research was restricted to examining SOEs in one jurisdiction, as the study employed a single-country analysis. Future studies with cross-country analysis may increase understanding of the moderator effects of penalties. The coverage of the research study also restricted the investigation to SOEs only, whose single shareholding is Government, and hence future studies could examine different capital ownership arrangements, such as organisations with private sector shareholding. This would assist in examining the efficacy of penalties in the performance of private corporates. Furthermore, SOEs in Zimbabwe represent an important tool for the implementation of national reforms towards the realisation of climate mitigation and adaptation. This raises scope for further research in climate policies and practices across SOEs, relative to best practices, and inform interventions for integrating climate actions into SOEs policies and corporate governance. The outcomes of such research would strengthen compliance monitoring and reporting, enhance financial oversight of SOEs, and exploring of opportunities that include finance considerations in SOEs financial management, and enable public-private partnerships.

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