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The impact of partial framework implementation and non-compliance with corporate governance and performance of SOEs in Zimbabwe

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Abstract

The effective governance of State-Owned Enterprises (SOEs) is critical to enhancing public sector performance and advancing Zimbabwe's broader socio-economic development agenda. However, the persistent underperformance of these entities has largely been attributed to the fragmented implementation and inconsistent enforcement of statutory corporate governance frameworks. This study examines the economic and operational costs associated with non-compliance with the Public Entities Corporate Governance Act [Chapter 10:31] and the National Code on Corporate Governance. Anchored in a positivist research paradigm and employing a deductive research approach, the study utilises a quantitative panel-data analysis of 20 Tier 1 parastatals over the period 2018–2024. Secondary data were sourced from Auditor-General reports and Ministry of Finance records to construct governance and performance indicators, including an audit compliance index and a board independence ratio, as proxies for governance quality and fiscal impact. The empirical findings provide evidence of institutional decoupling, whereby public entities formally adopt governance structures to secure regulatory legitimacy while preserving entrenched internal practices that undermine accountability and performance. This disconnect between formal compliance and operational behaviour facilitates systemic fiscal leakages, procurement irregularities, and weak financial oversight. The results further reveal that the costs of non-compliance manifest through persistent fiscal burdens on the national treasury, recurrent government bailouts, operational inefficiencies, and diminished public service delivery outcomes. The governance failures not only erode organisational performance but also constrain fiscal space and undermine broader macroeconomic stability. The study, therefore, emphasises the need for strengthened regulatory enforcement mechanisms, transparent and merit-based board appointment processes, enhanced accountability systems, and the incorporation of personal liability provisions for governance breaches. Such reforms are essential for improving institutional effectiveness, safeguarding public resources, and promoting sustainable economic development within Zimbabwe's evolving governance and fiscal landscape.

Keywords: Corporate Governance, State-Owned Enterprises, Fiscal Drag, Institutional Decoupling, Zimbabwe.



Introduction

The effective governance of State-Owned Enterprises (SOEs) has emerged as a critical concern for policymakers, development practitioners, and international financial institutions owing to its implications for fiscal sustainability, public sector performance, and macroeconomic stability (International Monetary Fund [IMF], 2024). Corporate governance refers to the system of structures, processes, mechanisms, and relationships through which organisations are directed and controlled to ensure accountability, transparency, efficiency, and long-term value creation (Organisation for Economic Co-operation and Development [OECD], 2023). Within the public sector, effective governance assumes particular importance because state-owned entities are entrusted with the stewardship of public resources and the delivery of strategic services that underpin national development. Governance failures within SOEs have implications that extend beyond organisational performance to affect fiscal stability, economic growth, and public welfare.

In Zimbabwe, the governance of public entities continues to be constrained by institutional fragility, policy uncertainty, and weak enforcement mechanisms (Zhou, 2022). Although governance reforms have been introduced to strengthen accountability and improve organisational performance, evidence suggests that many public entities continue to exhibit a disconnect between formal compliance and operational practice. Meyer and Rowan (1977) conceptualise this phenomenon as institutional decoupling, whereby organisations adopt formal governance structures to secure legitimacy while maintaining pre-existing routines and behaviours. Such symbolic compliance weakens accountability systems and undermines the effectiveness of governance reforms intended to safeguard public resources (Ndlovu, 2023).

The economic consequences of weak governance within Zimbabwe's parastatal sector are substantial. According to the Ministry of Finance and Economic Development (2024), persistent losses among state-owned enterprises continue to impose significant fiscal burdens on the national treasury through recurrent bailouts, debt assumptions, and direct financial support. These interventions divert scarce public resources from critical development priorities and contribute to widening fiscal deficits. Weak governance practices have also been associated with procurement irregularities, inadequate financial controls, inefficient resource allocation, and poor service delivery outcomes (Reserve Bank of Zimbabwe [RBZ], 2022). Governance failures within SOEs present a

direct challenge to the successful implementation of the National Development Strategy 1 and 2 (NDS1 & 2) and the attainment of Zimbabwe's Vision 2030 aspirations (Government of Zimbabwe, 2021; Zhou, 2023).

Recognising these challenges, the Government of Zimbabwe enacted the Public Entities Corporate Governance Act [Chapter 10:31] in 2018 to institutionalise accountability, transparency, and fiduciary responsibility within the public enterprise sector. The legislation sought to improve governance standards through enhanced board oversight, stricter reporting requirements, merit-based appointments, and stronger managerial accountability. However, despite these reforms, many state-owned enterprises continue to experience chronic operational inefficiencies, financial distress, and recurring governance failures. Auditor-General reports consistently reveal qualified and adverse audit opinions, procurement irregularities, weak internal control systems, and poor financial management practices across numerous public entities (Auditor-General, 2023). These trends suggest that the transition from a voluntary governance framework to a mandatory statutory regime has not translated into substantive improvements in organisational performance.

The persistence of these governance deficiencies points to a broader implementation gap. Rather than transforming organisational behaviour, governance reforms frequently remain procedural, with entities demonstrating formal compliance while continuing to operate according to entrenched management practices. The resulting fiscal drag poses a significant threat to macroeconomic stability, as repeated government interventions to rescue failing entities continue to strain the national fiscus and crowd out expenditure on essential public services (Ndlovu, 2023). Beyond their financial implications, governance failures undermine service delivery in strategically important sectors such as energy, water, transport, and telecommunications, thereby constraining economic competitiveness and social development (Gono & Muzurura, 2022).

Although a growing body of literature has examined corporate governance reforms in Zimbabwe and across Sub-Saharan Africa, much of the existing scholarship remains descriptive, normative, or focused on legislative provisions rather than implementation outcomes (Maruma & Sifile, 2023). Consequently, there is limited empirical evidence quantifying the economic and operational costs associated with governance non-compliance. Little is known in Zimbabwe about how governance variables such as board independence, audit compliance, and procurement accountability influence fiscal performance and organisational

sustainability within Zimbabwean parastatals. Existing studies have therefore provided limited insight into the extent to which governance implementation failures contribute to fiscal instability and service delivery deterioration.

This study addresses this gap by undertaking a quantitative panel-data analysis of 20 Tier 1 parastatals in Zimbabwe over the period 2018–2024. Drawing on Auditor-General reports and Ministry of Finance and Economic Development records, the study constructs governance indicators, including audit compliance scores and board independence ratios, to assess the relationship between governance quality and fiscal outcomes. By empirically quantifying the costs associated with governance non-compliance, the study contributes to the literature on public sector governance, institutional accountability, and fiscal sustainability. Furthermore, it provides evidence-based insights capable of informing regulatory enforcement, governance reform, and policy interventions aimed at strengthening organisational performance, safeguarding public resources, and enhancing macroeconomic stability in Zimbabwe.

Research Questions and Hypotheses

Guided by Institutional Theory, Agency Theory, and the concept of institutional decoupling, this study seeks to examine the fiscal and operational consequences of governance non-compliance within Zimbabwe's state-owned enterprise sector. Specifically, the study investigates the extent to which governance quality, board composition, procurement compliance, and institutional decoupling influence organisational performance and fiscal sustainability. To address these concerns, the following research questions and hypotheses are proposed.

The first research question examines the extent to which compliance with the Public Entities Corporate Governance Act [Chapter 10:31] influences the fiscal burden imposed by Tier 1 parastatals on the national treasury. Correspondingly, the study tests the hypothesis that there is a statistically significant negative relationship between audit compliance scores and the level of fiscal support required from the state, as measured by government bailouts and debt assumptions (H_1). The null hypothesis states that audit compliance scores have no statistically significant relationship with the level of fiscal support required from the state (H_{01}).

The second research question explores the relationship between board composition, particularly the balance between technical expertise and political appointments, and the incidence of adverse audit outcomes within parastatals. To test this relationship, the study hypothesises that parastatals characterised by

higher levels of board independence and technical expertise exhibit significantly fewer adverse audit findings and financial irregularities than entities dominated by politically appointed directors (H_2). The corresponding null hypothesis posits that board composition has no statistically significant effect on the incidence of adverse audit findings and financial irregularities (H_{02}).

The third research question investigates how non-compliance with the Public Procurement and Disposal of Public Assets Act [Chapter 22:23] contributes to financial leakages, operational inefficiencies, and declining organisational solvency. In response, the study hypothesises that non-compliance with statutory procurement regulations is positively associated with financial leakages and negatively associated with organisational solvency (H_3). The null hypothesis asserts that compliance with statutory procurement regulations has no statistically significant effect on financial leakages or organisational solvency (H_{03}).

The fourth research question examines the extent to which institutional decoupling influences governance effectiveness and service delivery performance within Zimbabwean parastatals. The associated hypothesis proposes that higher levels of institutional decoupling are significantly associated with lower service delivery performance among state-owned enterprises (H_4). The corresponding null hypothesis states that institutional decoupling has no statistically significant effect on service delivery performance within state-owned enterprises (H_{04}).

Collectively, these research questions and hypotheses provide the empirical basis for assessing the governance implementation gap within Zimbabwe's public enterprise sector and evaluating its implications for fiscal sustainability, organisational performance, and national development outcomes.

Review of literature

The governance of SOEs has long been examined through the lens of Agency Theory, which posits that governance failures arise from conflicts of interest between principals and agents and are exacerbated by information asymmetries (Jensen & Meckling, 1976). While this framework remains influential, contemporary scholarship argues that its explanatory power is constrained in public-sector settings where organisations are accountable to multiple stakeholders and pursue objectives beyond profit maximisation (Florio, 2019; OECD, 2023). In state-owned enterprises, managers are accountable not only to government ministries but also to citizens, regulators, legislators, and

broader society. This multiplicity of principles frequently generates competing accountability demands, complicating governance processes and weakening organisational effectiveness (Grossi et al., 2021).

Within African public enterprises, governance challenges often manifest as principal–principal conflicts rather than conventional principal–agent problems. Political actors frequently exert significant influence over board appointments, procurement decisions, and strategic priorities, thereby subordinating organisational objectives to political considerations (Hope, 2018; Mutize, 2022). Such arrangements create soft budget constraints, whereby managers anticipate state bailouts during periods of financial distress and consequently face weaker incentives for efficiency, innovation, and prudent resource management (Kornai et al., 2003; Florio, 2019). The resulting governance failures extend beyond organisational boundaries, generating fiscal pressures that ultimately burden taxpayers and undermine national development objectives.

Institutional Theory provides a complementary explanation for the persistence of governance deficiencies despite extensive reform efforts. Meyer and Rowan (1977) argue that organisations frequently adopt formal structures and procedures to secure legitimacy while leaving underlying operational practices largely unchanged. More recent institutional scholarship describes this phenomenon as institutional decoupling, whereby formal compliance becomes symbolic rather than substantive (Bromley & Powell, 2019). Closely related is the concept of isomorphic mimicry, which refers to the replication of internationally recognised institutional forms without the corresponding development of organisational capabilities necessary for effective implementation (Andrews et al., 2017). These concepts have relevance in developing countries where public-sector reforms are often driven by external pressures from development partners, international financial institutions, and governance watchdogs. Pritchett et al. (2018) argue that many governance reforms have prioritised compliance with externally prescribed models while neglecting the political and institutional realities that shape implementation. Consequently, formal governance structures frequently coexist with entrenched patronage networks, clientelism, and informal systems of influence. In Zimbabwe, this dynamic is especially significant given the continued intersection between political authority and public enterprise management (Ndlovu, 2023; Zhou, 2023). Governance implementation failures may therefore reflect not merely administrative weaknesses but deeper institutional incentives that sustain symbolic compliance while preserving existing power structures. From this

perspective, the Public Entities Corporate Governance Act [Chapter 10:31] may provide the appearance of compliance while underlying governance practices remain largely unchanged. This study, therefore, conceptualises governance non-compliance through the lens of institutional decoupling, arguing that formal adherence to statutory governance requirements frequently conceals the persistence of informal practices that undermine accountability, organisational performance, and fiscal sustainability.

Scholarly evidence demonstrates a strong relationship between governance quality and fiscal sustainability within state-owned enterprises. According to the IMF (2024), poorly governed SOEs constitute one of the largest sources of contingent fiscal liabilities in developing economies. Weak governance structures often result in operational inefficiencies, excessive debt accumulation, recurrent losses, and dependence on government subsidies. Similarly, the World Bank (2022) found that governance failures in public enterprises contribute significantly to fiscal deficits through direct fiscal transfers, sovereign guarantees, and repeated bailout interventions. In Sub-Saharan Africa, governance deficits have been linked to persistent fiscal instability, declining public-sector performance, and reduced service delivery capacity (Mashimbye & Fanta, 2024). Studies from Kenya, Ghana, Nigeria, and South Africa indicate that weak oversight mechanisms, political interference, and inadequate accountability structures are associated with poor financial performance and increased dependence on state support (Agyemang & Castellini, 2021; Hope, 2018).

The Zimbabwean experience reflects regional trends. Auditor-General reports identify governance weaknesses, procurement irregularities, weak internal controls, and non-compliance with statutory requirements as major contributors to financial distress among public entities (Auditor-General, 2023; Ministry of Finance and Economic Development, 2024). These governance failures not only impose direct costs on the national treasury but also undermine investor confidence, economic competitiveness, and long-term fiscal sustainability.

Board composition has emerged as one of the most important determinants of governance effectiveness in contemporary corporate governance literature. The OECD (2023) emphasises that independent and professionally competent boards are essential for effective oversight, risk management, accountability, and strategic direction. Studies demonstrate that board independence is positively associated with financial transparency, stronger audit quality, and improved organisational performance (Alabdullah et al., 2021; Naciti, 2019). However, evidence from most developing countries, such as Zimbabwe,

suggests that political appointments frequently compromise board effectiveness. Investigations into governance failures within major South African SOEs, for instance, revealed that politically connected boards weakened oversight functions and facilitated large-scale state capture (Zondo Commission, 2022). Similar findings have been reported in East African public enterprises, where political patronage has undermined reform initiatives and organisational performance (Muriithi, 2021). While existing studies establish a relationship between political influence and governance failures, there remains limited longitudinal evidence demonstrating how changes in the balance between technical expertise and political appointments influence audit outcomes over time. This gap is also evident within Zimbabwe, where studies examining the effects of board composition on governance outcomes remain limited and largely descriptive.

Another critical channel through which governance failures generate fiscal losses is public procurement. Transparency International (2022) estimates that procurement-related corruption accounts for a significant proportion of public-sector financial leakages globally. Across Africa, procurement irregularities have been associated with inflated contracts, uncompetitive tendering, contract manipulation, asset misappropriation, and substantial resource losses (African Development Bank, 2023). In Zimbabwe, Auditor-General reports repeatedly identify procurement non-compliance as a major source of financial mismanagement within state-owned enterprises (Auditor-General, 2023). Common irregularities include bypassing competitive tender procedures, unauthorised contract variations, unsupported expenditures, and weak contract management practices. These governance deficiencies contribute directly to capital erosion, declining organisational solvency, and reduced operational effectiveness. Although digital procurement systems have increasingly been promoted as mechanisms for improving transparency and reducing opportunities for corruption, emerging evidence suggests that technological interventions alone are insufficient in the absence of robust enforcement institutions, effective oversight mechanisms, and personal accountability measures (OECD, 2023; World Bank, 2021). Procurement governance remains a critical determinant of organisational sustainability and fiscal performance within the public sector.

The consequences of governance implementation failures are particularly visible in-service delivery sectors such as energy, water, transport, and telecommunications. A growing body of literature highlights the distinction

between formal governance compliance and actual organisational effectiveness. Bromley and Powell (2019) argue that organisations frequently satisfy procedural and reporting requirements without fundamentally altering operational practices. Such institutional decoupling is particularly problematic in public utilities, where governance deficiencies directly affect infrastructure maintenance, service reliability, and citizen welfare. Research across developing economies indicates that governance reforms frequently improve reporting structures and formal compliance indicators without producing corresponding improvements in operational performance (Andrews et al., 2017; Pritchett et al., 2018). In Zimbabwe, this disconnect is evident in several public entities that comply with reporting obligations while simultaneously experiencing declining infrastructure quality, operational inefficiencies, and deteriorating service delivery outcomes (Chundu & Zhou, 2023; Gono & Muzurura, 2022). These findings suggest that governance effectiveness should be assessed not solely through procedural compliance but through its capacity to enhance accountability, improve financial sustainability, and strengthen service delivery outcomes. Scholars advocate a shift from symbolic compliance towards substantive governance reforms capable of transforming organisational behaviour and improving institutional performance.

Despite growing scholarly attention to governance reform in Africa, significant empirical gaps remain. Existing studies have predominantly focused on governance principles, legal frameworks, and descriptive assessments of institutional performance (Maruma & Sifile, 2023; Mutize, 2022). Few studies have quantitatively examined the economic and operational costs associated with governance non-compliance, particularly within Zimbabwe's public enterprise sector. Furthermore, limited research has employed longitudinal panel-data approaches to investigate how governance variables such as audit compliance, board independence, procurement compliance, and institutional decoupling influence fiscal sustainability and service delivery performance over time. This study addresses the gaps by undertaking a quantitative panel-data analysis of 20 Tier 1 parastatals between 2018 and 2024. By linking governance indicators to fiscal and operational outcomes, the study contributes to the growing literature on public-sector governance, institutional accountability, fiscal sustainability, and state-owned enterprise reform in developing economies. The study further provides empirical evidence capable of informing governance policy, regulatory enforcement, and institutional strengthening initiatives aimed at enhancing organisational performance and safeguarding public resources in Zimbabwe.

Methodology

This study adopts a positivist research philosophy and a deductive research approach to examine the relationship between corporate governance compliance and the performance of SOEs in Zimbabwe. Positivism is appropriate because the study seeks to establish objective and measurable relationships among governance variables and organisational outcomes through empirical observation and statistical analysis. Consistent with the deductive tradition, hypotheses derived from Agency Theory and Institutional Theory are subjected to empirical testing using observable data.

A quantitative longitudinal panel-data research design was employed, covering the period 2018–2024. The selected timeframe captures both the immediate and medium-term effects of the implementation of the Public Entities Corporate Governance Act [Chapter 10:31], enacted in 2018 to strengthen accountability, transparency, and performance within Zimbabwe’s public enterprise sector. Panel-data analysis was selected because it enables the simultaneous examination of cross-sectional and temporal variations, controls for unobserved entity-specific heterogeneity, and provides more efficient parameter estimates than purely cross-sectional or time-series approaches (Wooldridge, 2021). The design is particularly suitable for governance studies where organisational characteristics and institutional conditions evolve.

Population and Sample Selection

The study population comprised all state-owned enterprises operating in Zimbabwe. A purposive census sampling strategy was adopted to select 20 Tier 1 parastatals identified by the Ministry of Finance and Economic Development as strategically important and fiscally significant entities. These organisations were selected because of their substantial contribution to national infrastructure, service delivery, and public expenditure obligations.

The sampled entities included the Zimbabwe Electricity Supply Authority (ZESA), Zimbabwe National Water Authority (ZINWA), Zimbabwe National Roads Administration (ZINARA), National Railways of Zimbabwe (NRZ), Air Zimbabwe, TelOne, NetOne, Grain Marketing Board (GMB), Cold Storage Commission (CSC), Agricultural and Rural Development Authority (ARDA), Zimbabwe Mining Development Corporation (ZMDC), Minerals Marketing Corporation of Zimbabwe (MMCZ), National Social Security Authority (NSSA), Zimbabwe Broadcasting Corporation (ZBC), Zimbabwe Parks and Wildlife Management Authority (ZPWMA), Industrial Development Corporation

(IDC), Hwange Colliery Company Limited (HCCL), Allied Timbers Zimbabwe, Petrotrade, and the National Oil Infrastructure Company of Zimbabwe (NOIC). Collectively, these entities account for a significant proportion of government contingent liabilities and have consistently featured in Auditor-General reports due to governance and performance concerns.

Data Sources, Extraction and Validation

The study relied exclusively on secondary data obtained from Auditor-General reports, Treasury Quarterly Bulletins, annual reports of state-owned enterprises, Ministry of Finance and Economic Development publications, and Zimbabwe National Statistics Agency (ZIMSTAT) datasets. Secondary data were selected because they provide audited, publicly verifiable, and longitudinal information necessary for objective assessment of governance compliance and fiscal performance. Data extraction was undertaken using a standardised data-capture template developed specifically for the study. To enhance reliability and minimise transcription errors, extracted information was cross-validated against multiple official sources. Furthermore, an independent research assistant verified a randomly selected 10% sample of the dataset to assess coding accuracy and consistency. Any discrepancies identified during the verification process were reconciled through reference to the source documents.

Currency Adjustment and Data Normalisation

Zimbabwe's macroeconomic environment during the study period was characterised by episodes of high inflation and multiple currency transitions involving the United States Dollar (USD), Zimbabwe Dollar (ZWL), and Zimbabwe Gold (ZiG). To mitigate distortions arising from currency fluctuations and inflationary effects, the study employed ratio-based indicators rather than nominal monetary values. Fiscal Drag, the dependent variable, was operationalised as the total value of government bailouts, guarantees, debt assumptions, or fiscal support received by an enterprise divided by its annual turnover. The use of ratios standardised observations across entities and years, thereby improving comparability and reducing inflation-related measurement bias. This approach is consistent with recommendations in fiscal governance and public finance literature for analysing financial performance in volatile macroeconomic environments.

To facilitate quantitative modelling, qualitative governance indicators were transformed into measurable indices using a structured coding framework.

Audit Compliance Score (ACS): Audit outcomes were converted into a four-point ordinal index, where an unqualified audit opinion was assigned a score of 3, a qualified opinion a score of 2, an adverse opinion a score of 1, and a disclaimer of opinion a score of 0. Higher scores indicate stronger compliance with financial reporting and governance standards.

Procurement Compliance Index (PCI): Procurement compliance was operationalised as a binary variable. A value of 1 was assigned where no significant procurement irregularities were identified in Auditor-General reports, while a value of 0 indicated the presence of material procurement violations or statutory non-compliance.

Board Independence Ratio (BIR): Board independence was measured as the proportion of independent technical experts relative to total board membership. This indicator captures the extent to which boards are characterised by professional expertise rather than political affiliation.

Fiscal Drag (FD): The dependent variable was measured as the ratio of state financial support to annual organisational turnover.

Macroeconomic Controls: Gross Domestic Product (GDP) growth rates were incorporated as control variables to account for broader economic conditions that may influence organisational performance independent of governance quality.

Model Specification

The relationship between governance compliance and fiscal performance was estimated using the following panel-data model:

where:

= represents unobserved entity-specific effects (parastatal effects);

= represents time-specific effects common to all entities;

= is the idiosyncratic error term.

Diagnostic and Robustness Tests

Several diagnostic procedures were conducted to ensure the validity and reliability of the regression estimates. The Hausman specification test was employed to determine whether fixed-effects or random-effects estimation was appropriate. Multicollinearity among explanatory variables was assessed using the Variance Inflation Factor (VIF), with values below the conventional threshold of 10 considered acceptable. Serial correlation was examined using

the Wooldridge test for autocorrelation in panel data, while heteroscedasticity was assessed using the modified Wald test. Where necessary, robust standard errors were used to address violations of classical regression assumptions.

The diagnostic procedures enhanced the robustness of the findings by ensuring that coefficient estimates were not biased by entity-specific characteristics, temporal dependencies, or model misspecification. Consequently, the methodological approach provides a reliable empirical basis for assessing the fiscal and operational consequences of governance non-compliance within Zimbabwe's state-owned enterprise sector.

Results and Discussion

The empirical analysis utilised a balanced panel comprising 140 observations derived from 20 Tier 1 parastatals observed over the period 2018–2024. Prior to model estimation, a series of diagnostic tests were undertaken to assess the suitability of the dataset for panel regression analysis. The Hausman specification test produced a statistically significant result ($p = 0.002$), indicating systematic differences between fixed-effects and random-effects estimators and therefore supporting the adoption of the fixed-effects model. This finding suggests that unobserved entity-specific characteristics are correlated with the explanatory variables and should therefore be controlled for within the estimation framework. Multicollinearity was not considered problematic, as all Variance Inflation Factor (VIF) values remained below 2.5, well below the commonly accepted threshold of 10 (Gujarati & Porter, 2021). Furthermore, the Wooldridge test for serial correlation failed to detect first-order autocorrelation, confirming the suitability of the dataset for panel-data estimation.

The study achieved a 100% data completeness rate across all sampled entities. This exceptional level of completeness reflects the strategic importance of Tier 1 parastatals, which are subject to enhanced scrutiny by the Ministry of Finance and Economic Development, the Auditor-General, and parliamentary oversight committees. Unlike smaller public entities that frequently exhibit reporting deficiencies, Tier 1 enterprises are required to produce comprehensive annual reports and audited financial statements to satisfy statutory reporting obligations. Consequently, the dataset contained no missing observations, eliminating the need for statistical imputation and ensuring the integrity of the balanced panel structure.

Table 1: Variable Definitions and Descriptive Statistics (N = 140)

Variable	Definition	Mean	SD	Min	Max
Fiscal Drag	Total value of annual bailouts or debt assumptions divided by annual turnover (%)	12.45	8.32	1.20	42.60
Audit Compliance Score (ACS)	Audit opinion score: 3 = unqualified, 2 = qualified, 1 = adverse, 0 = disclaimer	1.12	0.84	0.00	3.00
Board Independence Ratio (BIR)	Independent technical experts are divided by total board membership	0.38	0.18	0.10	0.85
Procurement Compliance Index (PCI)	1 = full procurement compliance; 0 = significant irregularities	0.42	0.49	0.00	1.00

The descriptive statistics reveal persistent governance weaknesses across Zimbabwe’s strategically significant public enterprises. The mean Audit Compliance Score of 1.12 indicates that the typical entity operated under either an adverse or qualified audit opinion throughout much of the study period. From an institutional theory perspective, this finding provides preliminary evidence of governance decoupling, whereby formal governance structures exist but fail to generate substantive compliance outcomes (Bromley & Powell, 2019). The relatively low mean score also reflects persistent weaknesses in internal controls, financial reporting systems, and accountability mechanisms.

Similarly, the average Board Independence Ratio of 0.38 suggests that fewer than four out of every ten board members possessed independent technical expertise. This finding raises concerns regarding the effectiveness of board oversight and supports arguments within the corporate governance literature that politically influenced boards often lack the capacity to exercise effective strategic and fiduciary oversight (OECD, 2023). The wide variation in board independence across entities further suggests considerable heterogeneity in governance quality within the parastatal sector.

The Procurement Compliance Index reveals that only 42% of observations reflected full adherence to statutory procurement requirements. This result is consistent with repeated Auditor-General findings identifying procurement irregularities as one of the principal drivers of financial leakages within public entities. Given the strategic role of procurement in public financial management, the low compliance rate suggests a substantial risk of resource misallocation, rent-seeking behaviour, and operational inefficiency.

Perhaps most striking is the magnitude of Fiscal Drag. The mean value of 12.45% indicates that, on average, government support equivalent to more than one-tenth of annual organisational turnover was required to sustain operations. At the upper extreme, some entities required state interventions equivalent to 42.6% of annual turnover, underscoring the severity of financial distress within segments of the public enterprise sector. These findings provide preliminary evidence that governance weaknesses may translate into substantial fiscal burdens for the state, thereby justifying further econometric investigation.

Correlation Analysis

Table 2: Correlation Matrix

Variable	Fiscal Drag	ACS	BIR	PCI
Fiscal Drag	1.00			
ACS	-0.68	1.00		
BIR	-0.54	0.42	1.00	
PCI	-0.71	0.58	0.36	1.00

The correlation matrix provides preliminary evidence regarding the relationships among the study variables. Fiscal Drag exhibits strong negative correlations with Audit Compliance Score ($r = -0.68$), Board Independence Ratio ($r = -0.54$), and Procurement Compliance Index ($r = -0.71$). These relationships suggest that improvements in governance quality are associated with reductions in the fiscal burden imposed on the national treasury.

The strongest relationship was observed between Fiscal Drag and Procurement Compliance ($r = -0.71$), indicating that procurement governance may represent one of the most influential mechanisms through which governance failures translate into fiscal costs. This finding is consistent with public-sector governance literature, which identifies procurement irregularities as a primary source of

financial leakages in state-owned enterprises (Transparency International, 2022).

Positive correlations among the governance variables themselves further indicate that governance practices tend to be mutually reinforcing. Entities exhibiting stronger audit compliance also tend to possess more independent boards ($r = 0.42$) and stronger procurement compliance systems ($r = 0.58$). These patterns suggest that governance quality is not isolated to individual mechanisms but rather reflects broader institutional cultures of accountability and compliance.

Although correlation analysis does not establish causality, the observed relationships provide preliminary support for the study's hypotheses and justify the subsequent application of multivariate panel-data techniques to determine the magnitude and significance of these governance effects after controlling for entity-specific heterogeneity and macroeconomic influences.

Discussion of Regression Results

The regression results provide evidence of a statistically significant relationship between governance quality and fiscal performance among Zimbabwe's Tier 1 parastatals. The stability of the coefficients across alternative model specifications, including one-year lagged governance variables, suggests that governance indicators function as leading predictors of fiscal outcomes rather than merely reflecting contemporaneous organisational conditions. This finding strengthens confidence in the directionality of the observed relationships and stresses the importance of governance quality as a determinant of institutional sustainability.

The negative and statistically significant relationship between the Audit Compliance Score and Fiscal Drag provides support for H_1 , indicating that improvements in audit quality are associated with reductions in the fiscal burden imposed on the state. Substantively, the results suggest that a one-unit increase in audit compliance is associated with a decline of more than four percentage points in fiscal support requirements. This finding is consistent with Agency Theory, which posits that stronger monitoring and reporting mechanisms reduce information asymmetries and constrain managerial opportunism (Jensen & Meckling, 1976).

The relatively low mean Audit Compliance Score reported in the descriptive analysis further suggests that many public entities continue to experience

weaknesses in financial controls and reporting systems. From an institutional perspective, these findings provide evidence of governance decoupling, whereby formal governance structures exist but are not consistently translated into effective accountability practices (Bromley & Powell, 2019). Governance deficiencies may remain undetected until they manifest as severe liquidity constraints, requiring government intervention through bailouts or debt assumptions.

The Board Independence Ratio was also found to exert a statistically significant effect on fiscal performance, thereby supporting H_2 . The results indicate that entities characterised by higher levels of independent technical expertise on their boards experience lower levels of fiscal distress. This finding aligns with corporate governance literature emphasising the monitoring role of independent directors in strengthening oversight, enhancing strategic decision-making, and reducing agency costs (OECD, 2023; Naciti, 2019). Boards with limited technical independence may possess weaker oversight capacity, thereby increasing organisational vulnerability to governance failures. Within the context of Zimbabwe's public enterprise sector, the findings suggest that board composition is not merely a governance formality but a critical determinant of organisational accountability and financial sustainability.

The Procurement Compliance Index emerged as one of the strongest predictors of fiscal stability, providing empirical support for H_3 . The results demonstrate that entities exhibiting stronger adherence to procurement regulations experience significantly lower levels of fiscal drag. This finding is consistent with international evidence identifying procurement governance as a critical mechanism for safeguarding public resources and reducing financial leakages (Transparency International, 2022; African Development Bank, 2023). Procurement irregularities often undermine value for money, weaken organisational solvency, and contribute to the erosion of public trust. The magnitude of the procurement coefficient suggests that improvements in procurement compliance may yield substantial fiscal benefits, highlighting the strategic importance of strengthening procurement oversight, transparency, and enforcement mechanisms within state-owned enterprises.

More broadly, the findings lend support to the proposition that institutional decoupling undermines organisational effectiveness and service delivery performance. The explanatory power of the model, which accounts for more than 76% of the variation in organisational performance, indicates that governance factors constitute a major determinant of institutional outcomes. This result is

consistent with institutional theory, which argues that formal compliance alone is insufficient to generate meaningful organisational change unless governance structures are accompanied by substantive behavioural and operational reforms (Andrews et al., 2017; Meyer & Rowan, 1977). Where governance mechanisms function primarily as symbolic instruments of legitimacy, accountability systems remain weak and operational inefficiencies persist. The resulting deterioration in organisational performance ultimately affects service delivery in strategically important sectors such as energy, transport, and water provision.

Taken together, the findings suggest that governance reform within Zimbabwe's parastatal sector requires a shift from procedural compliance towards substantive implementation. Strengthening audit quality, enhancing board independence, and enforcing procurement regulations are not merely administrative requirements; they are critical institutional mechanisms through which fiscal sustainability, organisational performance, and national development objectives can be advanced. The effectiveness of the Public Entities Corporate Governance Act will depend less on the existence of governance structures and more on the extent to which those structures are embedded in everyday organisational practice and supported by credible enforcement mechanisms.

Conclusions

The findings of this study provide evidence that weaknesses in the implementation of corporate governance frameworks have contributed significantly to fiscal instability and operational inefficiencies within Zimbabwe's SOEs. Although the enactment of the Public Entities Corporate Governance Act [Chapter 10:31] represented a significant policy intervention aimed at strengthening accountability, transparency, and institutional performance, the results indicate that implementation has been uneven across the parastatal sector. Many entities have adopted formal governance structures and reporting mechanisms; however, these institutional arrangements have not consistently translated into substantive improvements in organisational practices, financial management, or service delivery outcomes.

The study further demonstrates that governance quality is strongly associated with fiscal performance. Poor audit compliance, limited board independence, and weak adherence to procurement regulations were all found to be significant predictors of fiscal drag. The findings suggest that governance deficiencies extend beyond procedural shortcomings and have tangible economic consequences for

the national fiscus. The persistence of emergency bailouts, debt assumptions, and recurrent financial distress among several parastatals reflects underlying agency problems, weak accountability systems, and inadequate oversight mechanisms. Furthermore, the evidence indicates that governance structures are most effective when supported by genuine institutional commitment rather than symbolic compliance with statutory requirements.

The study, therefore, concludes that the governance implementation gap remains one of the principal constraints to improving the performance, sustainability, and developmental contribution of Zimbabwe's SOEs. Unless governance reforms move beyond formal compliance towards substantive implementation, the fiscal burden imposed by underperforming public enterprises is likely to persist, undermining broader national development objectives, including the aspirations articulated in National Development Strategy 1& 2 and Vision 2030.

Recommendations

Legal and Regulatory Reforms

The Government of Zimbabwe should strengthen enforcement mechanisms under the Public Entities Corporate Governance Act by introducing clearer accountability provisions for board members and senior executives. Consideration should be given to the introduction of personal liability and surcharge mechanisms in cases involving proven negligence, fiduciary breaches, or persistent violations of procurement regulations. In addition, implementation of Auditor-General recommendations should be strengthened through legally enforceable compliance timelines and sanctions for repeated non-compliance. Such measures would enhance accountability and reinforce the credibility of the governance framework.

Institutional and Board Reforms

There is a need to strengthen the independence, competence, and effectiveness of parastatal boards. Board appointment processes should be guided by transparent and merit-based criteria that prioritise professional expertise, sector-specific knowledge, and governance experience. The establishment of an independent Corporate Governance Commission or similar oversight body could enhance the integrity of board recruitment and evaluation processes. Furthermore, the adoption of fit-and-proper assessment criteria for prospective board members would contribute to improved oversight capacity and strengthen fiduciary accountability across public enterprises.

Administrative and Technological Reforms

The Procurement Regulatory Authority of Zimbabwe should accelerate the digital transformation of public procurement systems through the implementation of integrated e-procurement platforms. Such systems would improve transparency, strengthen audit trails, facilitate real-time expenditure monitoring, and reduce opportunities for procurement irregularities. Enhanced use of digital technologies would also improve information flows between public entities, oversight institutions, and the Ministry of Finance and Economic Development, thereby supporting more effective governance and resource management.

Fiscal Monitoring and Strategic Reforms

The Ministry of Finance and Economic Development should adopt a performance-based fiscal oversight framework that explicitly links financial support and budgetary allocations to governance compliance and organisational performance indicators. Entities demonstrating persistent governance failures should be subjected to enhanced monitoring, targeted restructuring programmes, or corrective interventions. Where sustained underperformance persists despite reform efforts, options such as commercialisation, strategic partnerships, partial privatisation, or divestiture should be considered. Such measures would reduce fiscal risks while ensuring that scarce public resources are allocated to institutions capable of delivering meaningful economic and social value.

Future Policy Direction

The long-term sustainability of Zimbabwe's public enterprise sector will depend on the transition from compliance-oriented governance to performance-oriented governance. Strengthening audit systems, improving board effectiveness, enforcing procurement regulations, and embedding accountability within organisational culture should therefore become central pillars of public sector reform. These measures would not only reduce fiscal pressures on the national treasury but also enhance service delivery, improve investor confidence, and contribute to the broader objectives of sustainable economic development.

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APPENDIX A: Sampled Tier 1 State-Owned Enterprises

The study utilised a purposive census sample of twenty (20) Tier 1 State-Owned Enterprises (SOEs) identified by the Ministry of Finance and Economic Development as strategically significant entities with substantial fiscal, infrastructural, and developmental implications for Zimbabwe.

1. Zimbabwe Electricity Supply Authority (ZESA)
2. Zimbabwe National Water Authority (ZINWA)
3. Zimbabwe National Roads Administration (ZINARA)
4. National Railways of Zimbabwe (NRZ)
5. Air Zimbabwe
6. TelOne (Private) Limited
7. NetOne Cellular (Private) Limited
8. Grain Marketing Board (GMB)
9. Cold Storage Commission (CSC)
10. Agricultural and Rural Development Authority (ARDA)
11. Zimbabwe Mining Development Corporation (ZMDC)
12. Minerals Marketing Corporation of Zimbabwe (MMCZ)
13. National Social Security Authority (NSSA)
14. Zimbabwe Broadcasting Corporation (ZBC)
15. Zimbabwe Parks and Wildlife Management Authority (ZimParks)
16. Industrial Development Corporation of Zimbabwe (IDCZ)
17. Hwange Colliery Company Limited (HCCL)
18. Allied Timbers Zimbabwe (ATZ)
19. Petrotrade (Private) Limited
20. National Oil Infrastructure Company of Zimbabwe (NOIC)

APPENDIX B: Audit Compliance Score (ACS) Coding Framework

To facilitate quantitative analysis, audit opinions reported by the Auditor-General of Zimbabwe were transformed into a numerical governance compliance index. The coding framework was designed to capture variations in financial reporting quality and institutional accountability across the sampled entities.

Table B1: Audit Compliance Score Coding Matrix

Audit Opinion	Score	Interpretation
Unqualified Opinion	3	Financial statements present fairly, in all material respects, the financial position and performance of the entity. Full compliance with applicable accounting and reporting standards.
Qualified Opinion	2	Financial statements are generally reliable, except for specific areas of material non-compliance, limitation of scope, or insufficient audit evidence.
Adverse Opinion	1	Financial statements contain pervasive material misstatements and do not fairly represent the financial position of the entity.
Disclaimer of Opinion	0	The auditor was unable to obtain sufficient and appropriate audit evidence to form an opinion, indicating significant governance and internal control deficiencies.

Higher scores indicate stronger financial governance and greater compliance with statutory reporting obligations.

APPENDIX C: Procurement Compliance Index (PCI) Coding Framework

The Procurement Compliance Index (PCI) measures adherence to the Public Procurement and Disposal of Public Assets Act [Chapter 22:23]. The index was developed from procurement-related observations contained in Auditor-General reports and annual audit findings.

Table C1: Procurement Compliance Index Coding Matrix

Compliance Status	Score	Classification Criteria
Compliant	1	No material procurement irregularities identified. Competitive bidding procedures, contract management requirements, and statutory procurement processes were substantially adhered to.
Non-Compliant	0	Presence of significant procurement violations, including but not limited to direct procurement without justification, unvouched expenditure, unsupported payments, irregular contract awards, or misuse of emergency procurement provisions.

The binary coding approach was adopted to ensure consistency across reporting periods and entities.

APPENDIX D: Board Independence Ratio (BIR) Classification Framework

The Board Independence Ratio (BIR) was developed to assess the extent to which parastatal boards were composed of technically qualified and independent directors relative to politically connected appointments.

Table D1: Board Membership Classification Criteria

Category	Classification Criteria
Technical Expert	Independent director possessing recognised professional qualifications and substantial experience in fields such as accounting, finance, engineering, law, economics, governance, risk management, information technology, or sector-specific technical disciplines. The individual must not hold a current executive position within the supervising ministry or government department.
Political Appointee	Director whose appointment is primarily associated with political office, ministerial affiliation, public-sector patronage networks, or senior civil service roles linked to the supervising ministry.

The Board Independence Ratio was calculated as:

A higher ratio indicates stronger board independence, enhanced oversight capacity, and greater potential for effective fiduciary governance.

APPENDIX E: Variable Operationalisation Summary

Table E1: Summary of Variables Used in the Panel Regression Model

Variable	Type	Measurement
Fiscal Drag (FD)	Dependent	Total annual bailouts and debt assumptions divided by annual turnover (%)
Audit Compliance Score (ACS)	Independent	Ordinal index ranging from 0–3
Board Independence Ratio (BIR)	Independent	Ratio ranging from 0–1
Procurement Compliance Index (PCI)	Independent	Binary variable (0 = Non-Compliant; 1 = Compliant)
GDP Growth Rate	Control Variable	Annual percentage growth rate of GDP

This operationalisation framework ensured consistency, replicability, and comparability across all entities and observation periods included in the study.