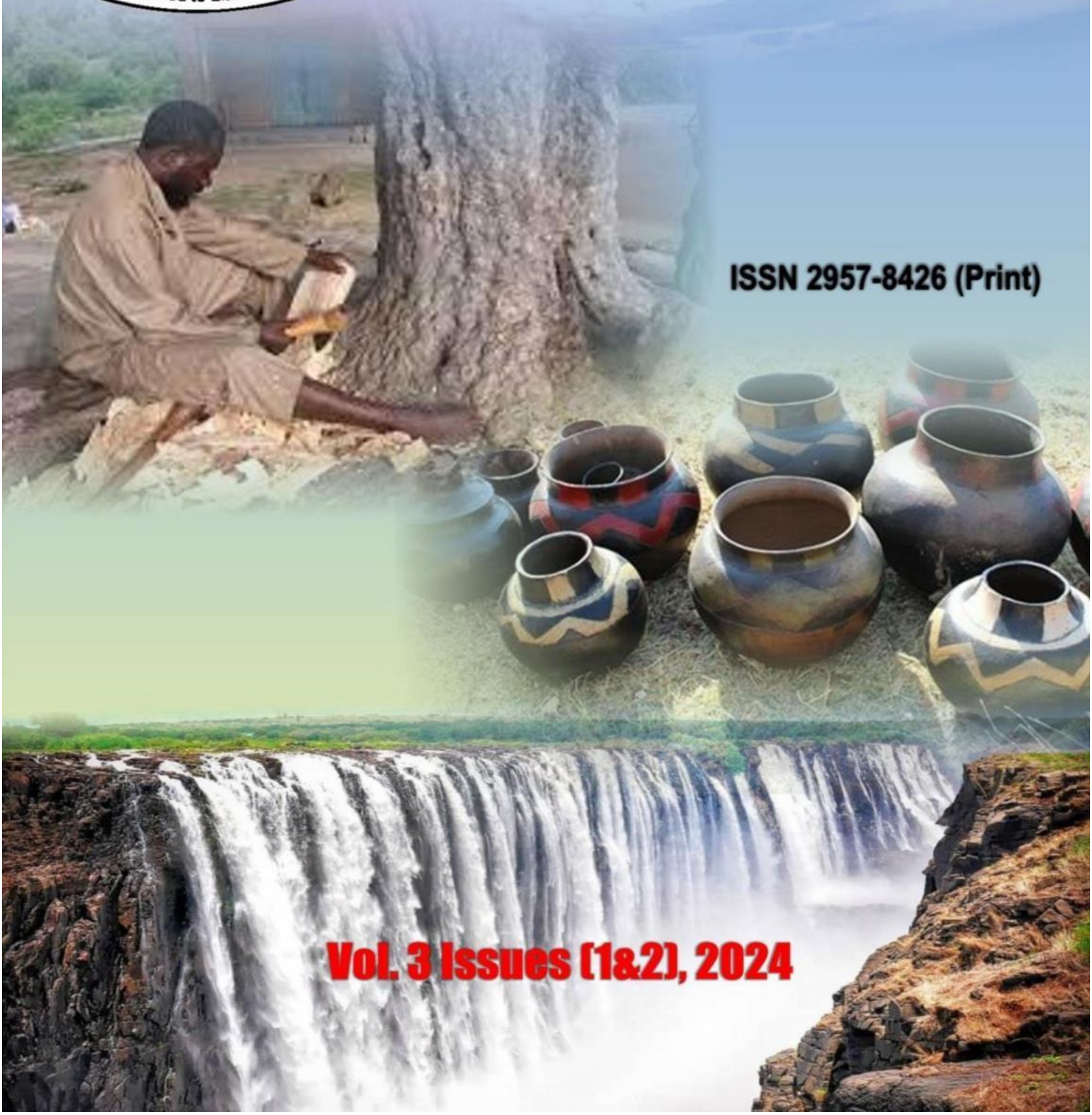
ZEGU
ZIMBABWE EZEKIEL GUTI UNIVERSITY
Committed to Excellence

# KUVEZA NEKUUMBA

THE ZIMBABWE EZEKIEL GUTI UNIVERSITY
JOURNAL OF DESIGN, INNOVATIVE THINKING AND PRACTICE



ISSN 2957-8426 (Print)

Vol. 3 Issues (1&2), 2024

Published by the Zimbabwe Ezekiel Guti University Press
Stand No. 1901 Barrassie Rd,
Off Shamva Road
Box 350
Bindura, Zimbabwe



Typeset by Divine Graphics
Printed by Divine Graphics



**SUBSCRIPTION AND RATES**
Zimbabwe Ezekiel Guti University Press Office
Stand No. 1901 Barrassie Rd,
Off Shamva Road
Box 350
Bindura, Zimbabwe
Telephone: ++263 8 677 006 136 | +263 779 279 912
E-mail: zegupress@zegu.ac.zw http://www.zegu.ac.zw/press

# About the Journal

## JOURNAL PURPOSE

The purpose of the *Kuveza neKuumba - Zimbabwe Ezekiel Guti University Journal of Design, Innovative Thinking and Practice is* to provide a forum for design and innovative solutions to daily challenges in communities.

## CONTRIBUTION AND READERSHIP

Planners, engineers, social scientists, business experts, scholars and practitioners from various fields.

## JOURNAL SPECIFICATIONS

*Kuveza neKuumba - Zimbabwe Ezekiel Guti University*
*Journal of Design, Innovative Thinking and Practice*

ISSN 2957-8426 (Print)

## SCOPE AND FOCUS

The journal is a forum for the discussion of ideas, scholarly opinions and case studies of multidisciplinary perspectives of design and innovative thinking. The journal is produced bi-annually.

# Guidelines for Authors for the Kuveza Nekuumba Journal

Articles must be original contributions, not previously published and should not be under consideration for publishing elsewhere.

**Manuscript Submission:** Articles submitted to the *Kuveza neKuumba - Zimbabwe Ezekiel Guti University Journal of Design, Innovative Thinking and Practice are* reviewed using the doubleblind peer review system. The author's name(s) must not be included in the main text or running heads and footers.

**A total number of words:** 5000-7000 words and set in 12point font size width with 1.5 line spacing.

**Language:** British/UK English

**Title:** must capture the gist and scope of the article

**Names of authors**: beginning with the first name sand ending with the surname

**Affiliation of authors**: must be footnoted, showing the department and institution or organisation.

**Abstract:** must be 200 words

**Keywords:** must be five or six containing words that are not in the title

**Body**: Where the authors are more than three, use *et al.,* Italicise *et al., ibid.,* words that are not English, not names of people or organisations, etc. When you use several authors confirming the same point, state the point and bracket them in one bracket and ascending order of dates and alphabetically separated by semi-colon e.g. (Falkenmark, 1989, 1990; Reddy, 2002; Dagdeviren and Robertson, 2011; Jacobsen *et al.,* 2012).

**Referencing Style:** Please follow the Harvard referencing style in that:

— In-text, citations should state the author, date and sometimes the page numbers.

— the reference list entered alphabetically, must include all the works cited in the article.

In the reference list, use the following guidelines, religiously:

## *Source from a Journal*

Anim, D.O and Ofori-Asenso, R. (2020). Water Scarcity and COVID-19 in Sub-Saharan Africa. *The Journal of Infection*, *81*(2), 108-09.

Banana, E, Chitekwe-Biti, B and Walnycki, A (2015). CoProducing Inclusive City-Wide Sanitation Strategies: Lessons from Chinhoyi, Zimbabwe. *Environment and Urbanisation*, *27*(1), 35-54.

Neal, M.J. (2020). COVID-19 and Water Resources Management: Reframing Our Priorities as a Water Sector. *Water International*, *45*(5), 435-440.

### *Source from an Online Link*

Armitage, N, Fisher-Jeffes L, Carden K, Winter K *et al.,* (2014). Water Research Commission: Water-sensitive Urban Design (WSUD) for South Africa: Framework and Guidelines. Available online:

https://www.greencape.co.za/assets/Water-Sector-DeskContent/WRC-Watersensitive-urban-design-WSUD-forSouth-Africa-framework-and-guidelines-2014.pdf. Accessed on 23 July 2020.

***Source from a Published Book***

Max-Neef, M. (1991). *Human Scale Development: Concepts, Applications and Further Reflections,* London: Apex Press.

***Source from a Government Department (Reports or Plans)***

National Water Commission (2004). Intergovernmental Agreement on a National Water Initiative. Commonwealth of Australia and the Governments of New South Wales, Victoria, Queensland, South Australia, the Australian Capital Territory and the Northern Territory. Available online: https://www.pc.gov.au/inquiries/completed/ water-reform/national-water-initiative-agreement2004.pdf. Accessed on 27 June 2020.

***The source being an online Newspaper article***

*The Herald* (2020). Harare City Could Have Used Lockdown to Clean Mbare Market. *The Herald*, 14 April 2020. Available online: https://www.herald.co.zw/hararecity-couldhave-used-lockdown-to-clean-mbare-market/. Accessed on 24 June 2020.

# In Quest of Corporate Governance Best Practices by State-owned Enterprises in Zimbabwe

ADMIRE MTHOMBENI[1], OBERT SIFILE[2], MORGEN SITHOLE, MBISI RANGARIRAI AND BRONSON MUTANDA[3]


## Abstract

*The role played by state-owned enterprises (SOEs) in the delivery of services in the country remains important but the prevalent volatile economic situation that the country is faced with, warrants an investigation of the practices of these entities as corruption becomes rampant in the economic turmoil. The main aim of the study was to investigate the causes of noncompliance with corporate governance best practices by SOEs in Zimbabwe. The study is premised on the argument that lack of accountability in SOEs has led to corruption and mass compensation at the expense of service delivery. The research adopted a quantitative approach with positivist philosophy, while , cross-sectional survey designs in which data were gathered using a structured questionnaire were used. The study found that the remuneration of nonexecutive members can moderate corporate governance practices. The study reveals that by appointing remuneration committees that looked into the remuneration of both executive and non-executive directors, firm performance and corporate governance practices were enhanced. The study concludes that ineffective board committees are the main cause of noncompliance with best corporate governance practices.*


**Keywords:** corporate malfeasance, internal control, corporate scandals, Public Entities Corporate Governance Act, state owned enterprise performance

## INTRODUCTION

State-owned enterprises play a crucial role in the economic landscape of Zimbabwe, particularly when it comes to the delivery of essential services like water, power, transportation, healthcare and education. Due to the economic significance of SOEs, it is necessary to ensure that they are always accountable, transparent and efficient to maintain economic growth through their contribution to the Gross Domestic Product (GDP) of the country. In a bid to keep SOEs sustained, there is need to ensure that they operate on equal terms with the private sector so that they do not continue draining the fiscus. In Zimbabwe, waves of highly publicised corporate scandals that have occurred in some SOEs have been attributed to deficiencies in corporate governance (Chambari, 2017). Some of these scandals involve SOEs being implicated in the excessive compensation given to Chief Executive Officers (CEOs), financial misappropriation, violation of tender rules and inappropriate recruitment procedures. Such a spate of scandals indicates that SOEs are confronted by a breach in corporate governance rules, which is why such distressed firms in Zimbabwe need to be supported.

The failure to practise strong corporate governance may be the cause of notable controversies in several of the SOEs in Zimbabwe. According to the Auditor General's (AG) 2016 Report to Parliament on SOEs, there appeared to be widespread consensus that SOEs were depressed and distressed. In its report, the AG stated that corporate governance issues were the key problems plaguing SOEs. Reports on SOE performance revealed a fall in the adoption and implementation of sound corporate governance practices. According to reports, certain SOEs engaged in malfeasances, including senior management living lavishly while providing poor services and incapacitating their workforce. In NetOne Telecommunications, where a lot of effort was placed into board members' court appearances rather than reviving the struggling SOE, there have been some significant reports of board fights and disputes. It is against this

[1] Department of Applied Business Sciences, Manicaland State University of Applied Sciences, Zimbabwe

[2] Department of Accounting and Finance, Chinhoyi University of Technology, Zimbabwe

[3] Department of Accounting and Finance, Chinhoyi University of Technology, Zimbabwe

background that the research investigates the cause of noncompliance with best corporate governance practices by SOEs.

## THEORETICAL FRAMEWORK

### *AGENCY THEORY*

A lot of research into corporate governance is derived from the agency theory (Yussof and Alhaji, 2012). The earliest work of Berle and Means (1932) focuses on ownership separation and pedals that resulted in the ignition of principal-agent problems. These problems are prevalent in modern organisations and SOEs are not exempt. As a result, Vitolla *et al.* (2020) define the agency theory as a theory involving a contract in which the shareholders engage the directors to do certain tasks on their behalf. Delegating functions to other agents may be one of these responsibilities. In this way, it is less likely that the agent will not always behave in the principal's best interests if the two sides to the relationship are utility maximisers. In this view, aberrant and deviant activities have been prevalent in SOEs in Zimbabwe where directors sometimes take entities as their properties (Chigudu, 2020). According to Chimbari (2017), corporate malpractices have gone to the extent of getting unauthorised benefits, including remuneration not commensurate with performance and qualifications at the expense of company shareholders. In Zimbabwe, billions of dollars were lost through directors handsomely rewarding themselves in various SOEs in Zimbabwe (Dandaratsi *et al.*, 2022). At SOEs in Zimbabwe, this agency problem was witnessed in the years that showed non-compliance with corporate governance principles.

### ACTS ESTABLISHING SOEs IN ZIMBABWE

SOEs in Zimbabwe have been largely established through of Acts of Parliament. Such Acts stipulated how a specific public entity had to be governed and the main objective for the formation of such public entities. In this view, abiding by the dictates of these Acts is important as it is the first step to conforming to best practice of corporate governance. It is evident from Table 1 that many of the SOEs in Zimbabwe were formed through Acts of Parliament which gave specifications of the main functions of the SOEs. Important is the fact that how these entities are run is governed by the respective Acts whose principles are guided by those of corporate governance.

**Table 1:** *Some of the Acts of Parliament establishing SOEs in Zimbabwe* (Compiled by researchers, 2023)

| **Act Establishing** | **State-owned Entity Name** | **Objective/Purpose** |
|---|---|---|
| The Civil Aviation Act [*Chapter 13:16*]. | The Civil Aviation Authority of Zimbabwe (CAAZ) | To promote safe, regular and effective usage and growth of aviation both inside and outsi de Zimbabwe, in addition to advising the government on all matters relating to domestic and international civil aviation. |
| The National Social Security Authority Act [*Chapter 17:04*] | The National Social Security Authority(NSSA) | To oversee the administration of workers' compensation, accident prevention and pension programmes. |
| Roads Act [*Chapter 13:18*] | The Zimbabwe National Roads Administration (ZINARA) | To fix, collect and disburse all road funds. |

| | | |
|---|---|---|
| Parks and Wildlife Act *Chapter 20:14* | Zimbabwe Parks and Wildlife Management Authority (ZimParks) | Toversee, maintain and manage sanctuaries, safari destinations, national parks, botanical reserves and botanical gardens. |

**THE CONSTITUTION OF ZIMBABWE AND SOEs**

A onstitution is the supreme law of the nation. It is regarded as a set of essential laws or generally recognised principles that govern how a state or organisation is conducted (*Oxford English Dictionary*). As a result, the constitution also outlines the administration and management of public entities. Therefore, Section 194(1) of the 2013 Constitution of Zimbabwe Amendment (Number 20) codifies the core ideals and guiding principles of public administration. According to this, all levels of government, including State institutions and agencies, government-controlled corporations and other public enterprises, must administer public affairs by democratic values and principles. In this view, Dandaratsi *et al.* (2022) espouse that chapter 9 of the Constitution of Zimbabwe provides for a uniform mechanism for regulating conditions of service for members of public entities and their senior employees. Section 194(1) of the Constitution stipulates the values that govern SOEs.

In addition, section 194(2) of the Zimbabwean Constitution highlights how appointments to offices of SOEs are made. In this sense, the Constitution preserves the idea that appointments to posts at all tiers of government, including institutions, agencies, corporations controlled by the government, and other public companies, must primarily be made based on merit. This is crucial to ensuring that these individuals have the necessary qualifications to interpret the many legal frameworks that govern how SOEs are run and managed. The responsibilities of public officers in these public enterprises, referred to as SOEs in this study, are also described under sections 196(1), (2) and (3) of the Constitution.

According to the Constitution of Zimbabwe, a public official's authority is a public trust and must be exercised in a way that promotes public confidence in the office that the public official occupies (Mukonza, 2013). These elected officials must act in a way that upholds their position's dignity, both in public and private, avoiding any conflicts between self objectives and their official duties. Good governance is being encouraged under the 2013 Constitution. The following fundamental ideals and principles, the supremacy of the Constitution, the rule of law and good governance, are outlined in ection 3.1 to encourage good governance. According to section 3.2, the State and all institutions and government agencies at all levels, should adhere to certain principles (*ibid.*). These principles include: (e) respecting the separation of powers principle, and (g) being transparent, fair, accountable and responsive. Section 9, which directs the State to adopt and execute laws and policies to promote efficiency, competence, accountability, transparency, personal integrity and financial probity in all institutions and levels of government, emphasises good governance even more. Promoting good governance places a high priority on the need to remove corruption and appoint public officials based on merit.

The constitutional provision known as section 197 of Zimbabwe, emphasises the terms of office of those in charge of government-controlled entities. In this regard, a Parliamentary act may limit the periods of office of the CEOs or leaders of government-controlled entities, other commercial organisations and public enterprises owned or wholly controlled by the State.

**THE ZIMBABWE NATIONAL CODE OF CORPORATE GOVERNANCE (2015)**

The Zimbabwe National Code of Corporate Governance (ZIMCODE) was introduced in 2015 with the main purpose of curtailing corporate scandals which had ravaged listed companies because of inadequate corporate governance compliance and were meant to augment the outdated colonialera Companies Act of 1951 (Nyakurukwa, 2021). Regardless of how they were founded and incorporated, all business entities in Zimbabwe were intended to be covered by the ZIMCODE. It acknowledged the existence of industry-specific corporate governance codes and whose guiding concepts are also derived from the ZIMCODE. The ZIMCODE contains various laws that outline how public entities are managed and are also taken directly from Zimbabwe's Constitution. The following conditions are carried out by the various ZIMCODE chapters (The Zimbabwe Leadership Forum, 2014).

### *PUBLIC ENTITIES CORPORATE GOVERNANCE ACT [CHAPTER 10.31 OF 2018]*

The Public Entities Corporate Governance (PECG) Act's provisions, which when enacted, marked a significant turning point for Zimbabwe, which had hitherto relied on informal corporate governance laws to guide its activities. The disadvantage of basing decisions on corporate governance frameworks and principles is that because they are not legally binding, they cannot be enforced in a court of law. Since the PECG Act entails sanctions and punitive measures in case of violation of the rules, its introduction represented a significant change in the corporate environment. The PECG Act was passed by the Zimbabwean government in November 2018 because of insufficient adherence to best corporate governance procedures. The Act mandated that Chapter 9 of the Constitution apply to the management of public businesses in Zimbabwe. In this sense, the PECG Act offers a uniform mechanism for regulating the terms of service for employees of public institutions (Mthombeni *et al.*, 2023).

## EMPIRICAL REVIEW

Chilinjika and Mutizwa (2019) opine that parastatals (SOEs) in Zimbabwe have been underperforming and, as such, have become burdens to the government. Their study, which was aimed at identifying factors hindering the efficient performance of SOEs, had a bias towards the National Railways of Zimbabwe (NRZ) for the period of 2008-2016. Their study used a mixed approach in which interviews were conducted, questionnaires distributed and a review of secondary sources done.

The results were that corporate governance epidemics, poor governance, corruption and poor governance and militarisation of the organisation, had led to the under-performance of SOEs. In the current study exploits the gap in the cause of noncompliance to best practices of corporate governance by SOEs.

The work of Maune (2015) had the overall aim of providing an overview of the current state of corporate governance in Zimbabwe. The studiy acknowledges that corporate governance had gained much relevance around the globe following worldknown corporate scandals that included Enron and WorldCom. The qualitative study employed the use of document analysis in data collection. Maune (|*ibid.*) indicates that Zimbabwe was amongst the few countries that did not have a national code of corporate governance. In this view, Maune (*ibid.*) notes that corporate governance in Zimbabwe was being regulated by the Companies Act, the Zimbabwe Stock Exchange Act and the rules of other professional bodies.

Time has lapsed since the studies were done by Maune in 2015, in which a lot of legislative developments, political changes and economic changes have taken place. As such, there is need to conduct a study on how some of the legislative developments, such as the PECG Act, have impacted corporate governance of SOEs in Zimbabwe.

Nyakurukwa (2021) examined the impact of corporate governance provisions on Zimbabwe companies listed on the Zimbabwe Stock Exchange 2013 to 2018 on financial performance. His research focused largely on ZIMCODE provisions, which, according to him, were designed to prevent corporate crises which devastated listed firms because of poor corporate governance compliance. He claims that the Companies Act of 1951 (now the Companies and Other Business Entities Act) was designed to be complemented by the ZIMCODE (*ibid.*).

The current study adopted a quantitative approach in which results of the study reveal that corporate governance reforms in Zimbabwe by the introduction of the ZIMCODE did not affect the financial performance of Zimbabwean companies much, hence suggesting that regulators needed an overhaul of the code and compulsory compliance. There is a gap in terms of what has caused corporate governance non-compliance by SOEs in Zimbabwe following the latest enactment (PECG, Act).

Chigudu (2021) carried out a study on SOEs that sought to identify the challenges facing the NRZ. The NRZ, as highlighted in the background of the study, is also an SOE, formed through the Railways Act Chapter 13.09. It was established to provide, operate and maintain an efficient system of public transportation of goods and passengers by rail. The study by Chigudu (2021), therefore, sought to identify the challenges facing the NRZ and suggest some measures to sustain the SOE. The study employed a descriptive research design. Data used in the study was gathered from various audit reports, literature reviews and reports by the media on the NRZ. The study looked at the current challenges of governance, transparency and accountability that were bedevilling SOEs in Zimbabwe. This is in tandem with the current study that seeks to identify the cause of poor observance of best corporate governance practices by SOEs in Zimbabwe. The current study fills the gap by also considering other various categories of SOEs in Zimbabwe. This is because challenges of corporate governance at the NRZ may be unique to the nature of the industry in which it is operating, hence results may not be generalised to other entities. Media reports, as a source of data collection, may be subjective sources, hence the current study fills the gap by adopting a mixed methodology to the study of corporate governance challenges by SOEs in Zimbabwe.

In their study, Mutize and Tefera (2020) carried out a scientific analysis of the feasibility of the creation of governance mechanisms in SOEs in selected African countries. The study explored the effective cost of governance failures in Zimbabwe, Kenya, South Africa and Ethiopia. It employed a desk research approach and used sources such as data from the World Bank (2018), the Energy Sector Management Assistance Programme on SOE performance and Organisation of Economic Cooperation and Develoment (OECD) 2018 Reports. The study focused on Ethiopian Airlines, deemed the largest and fastestgrowing airline in Africa (Barlow, 2016), South African Telkom, Air Zimbabwe, South African Eskom Power, DRC Gecamines and the Ghana Tema Oil Refinery.

The findings and conclusions were that the determinant factor in the success of SOEs in Africa was the response of governments to the challenges faced by SOEs. They suggested privatisation as a response to address governance challenges faced by African SOEs. Although desktop research was appropriate for the geographically dispersed nations studied, generalised findings were made that do not speak of a specific country. Therefore, the current study focuses strictly on Zimbabwe SOEs in explaining the cause of poor observance of corporate governance practices which have seen many malpractices happening.

**RESEARCH METHODOLOGY**

The research adopted a quantitative approach with positivist philosophy. The study used cross-sectional survey designs in which data were gathered using a structured questionnaire with the aid of an interview guide. The use of quantitative data allowed for objectivity and reproducibility (Malina, Nørreklit and Selto, 2011). The research targeted top and middle management, board members, board chairpersons and CEOs of SOEs in Harare, Zimbabwe. A sample size of 351 participants for quantitative data were calculated using the Krejcie and Morgan (1970) method whilst 16 interviews were conducted until saturation level. In the sampling of quantitative data, the research applied stratified random sampling, whilst in the sampling of qualitative data, purposive sampling or judgmental sampling was used. NVivo version 12 was used to analyse qualitative data, while SPSS version 23 was used for the analysis of quantitative data.

## FINDINGS

The sample size was 351, hence 351 questionnaires were distributed. Accordingly, 230 questionnaires were returned in a completed and usable state. This translated to a response rate of 65.5%. Interviews were conducted up to the 16th interviewee and no significant change in responses was noted. As such, the study conducting of the interviews was stopped after the 16th interviewee.

Testing for normality was necessary to fulfil the assumptions of many of the most suitable statistical tests. In light of this, the Kolmogorov-Smirnov and Shapiro-Wilk tests were conducted to determine the normality of data as emphasised by Razli and Wah (2011). As shown in Table 1, all the variables for both measures have values far less than 0.05.

This implies that the variables under consideration were not normally distributed, thus paving the way for the use of nonparametric tests to infer association among research constructs.

**Table 1:** *The Kolmogorov-Smirnov and Shapiro-Wilk normality tests* (Researcher, 2023)

| | Kolmogorov-Smirnov[a] | | | Shapiro-Wilk | | |
|---|---|---|---|---|---|---|
| | Statistic | Df | Sig. | Statistic | Df | Sig. |
| RAB1 | .367 | 230 | .000 | .620 | 230 | .000 |
| RAB2 | .386 | 230 | .000 | .625 | 230 | .000 |
| RAB3 | .350 | 230 | .000 | .636 | 230 | .000 |
| RAB4 | .293 | 230 | .000 | .717 | 230 | .000 |
| RRNE1 | .357 | 230 | .000 | .635 | 230 | .000 |
| RRNE2 | .345 | 230 | .000 | .636 | 230 | .000 |
| RRNE3 | .347 | 230 | .000 | .652 | 230 | .000 |
| RRNE4 | .370 | 230 | .000 | .632 | 230 | .000 |
| RDRB3 | .379 | 230 | .000 | .628 | 230 | .000 |

*a. Lilliefors Significance Correction*

Using SPSS Version 23, the Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity were largely used to determine whether the acquired data were sufficiently representative of the population. These tests were thus performed to determine whether or not factor analysis could be executed The KMO test was thus conducted to examine the strength of the partial correlation, that is, how the factors explain each other between the variables. KMO values closer to 1.0 are considered ideal while values less than 0.5 are unacceptable (Reddy and Kulshretha, 2019). Scholars such as Reddy and Kulshretha (*ibid.*) argue that a KMO of at least 0.80 is good enough for factor analysis to commence.

**Table 2:** *Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) (*Researcher, 2023)

| | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) | | .749 |
| Bartlett‘s Test of Sphericity | Approx. Chi-Square | 122.479 |
| | Df | 78 |
| | Sig. | .001 |

The results in Table 2 met minimum conditions and permitted Exploratory Factor Analysis (EFA) to be performed (Field, 2009).

**FACTOR ANALYSIS**

According to Bartholomew, Knott and Moustaki (2011) Factor Analysis is hinged on the idea that measurable and observable variables can be reduced to fewer latent variables that share common variance and are unobservable, which is regarded as reducing dimensionality. Such unobservable factors may not be measured directly but are equally hypothetical constructs that are used to represent the variables (Cattell, 1973).

As its main objective, the study, sought to investigate the causes of non-compliance with corporate governance best practices. As such, EFA was used to discover several factors influencing variables and to analyse the variables that go together. In this study, a large dataset consisting of many variables was reduced by observing groups of variables.

This means that factor analysis was useful in the present study which involved many variables and items from questionnaires which could be reduced to facilitate interpretations (Rummel, 1970). Factor analysis makes use of variances to produce commonalities between the variables. As shown in Tables 3 and 4, the variance is equal to the square of the factor loadings (Child, 2006). In the ables, Principal Components analysis was used to extract maximum variances from the data set with each component, thereby reducing quite a large number of variables into a smaller number of components (Tabachnick and Fidell, 2007). Factors were rotated for better interpretation since unrotated factors are unclear and ambiguous.

The tables show that components with Initial Eigenvalues greater than 1, were assumed to be adequate in explaining the construct under consideration. In the case above, of the seven reasons for non-compliance to reforms, only four reasons fully explained the low levels of implementation of reforms.

**Table 3:** *Reasons for Non-compliance Factor Analysis*

Total Variance Explained

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 2.298 | 32.835 | 32.835 | 2.298 | 32.835 | 32.835 | 1.866 | 26.664 | 26.664 |
| 2 | 1.231 | 17.592 | 50.427 | 1.231 | 17.592 | 50.427 | 1.606 | 22.948 | 49.612 |
| 3 | 1.023 | 14.619 | 65.046 | 1.023 | 14.619 | 65.046 | 1.080 | 15.434 | 65.046 |

In Table 3, components with Initial Eigenvalues greater than 1 were assumed to be adequate in explaining the construct under consideration in the case above of the seven reasons for noncompliance to reforms only four reasons fully explained the low levels of implementation of reforms.

**Table 4.:** *Reasons for non-compliance Factor Analysis.*

*Total Variance Explained* (Researcher, 2023)

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|---|---|---|---|---|---|---|---|---|---|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 4 | 1.909 | 12.979 | 78.025 | 1.091 | 11.124 | 75.259 | 1.214 | 12.421 | 75.259 |
| 5 | .696 | 9.943 | 87.968 | | | | | | |
| 6 | .476 | 6.797 | 94.765 | | | | | | |
| 7 | .366 | 5.235 | 100.000 | | | | | | |

**EXTRACTION METHOD: PRINCIPAL COMPONENT ANALYSIS.**

Tables 5 and 6 show the mean values and standard deviations (SDs) of items used to investigate causes of non-compliance with corporate governance best practices by SOEs. In this regard, the tables show the mean scores and the SDs of each item. However, before investigating the causes of noncompliance with corporate governance best practices, it was first ascertained if respondents understood corporate governance. Understanding the meaning of corporate governance had a mean score of 4.60 (approximately 5) which corresponds with strongly disagree. However, a very big SD of 0.541 implies that respondents held varied views on this variable, some agreed while others disagreed. From the study, responses were gathered from respondents with different backgrounds and categories of SOEs. The study was conducted from categories of SOEs which included authorities and agencies, boards and commissions, councils, companies and corporations, hospitals, financial institutions and tertiary institutions. Those who had little understanding were generally from medical backgrounds, where corporate governance could be practised but its definition was unknown. Additionally, the applicability of corporate governance to SOEs had a mean score of 4.57, which is near 5, and corresponded with a strongly agree. However, a very big SD of 0.546 implied that respondents held varied views on the issue of the applicability of corporate governance to SOEs, some agreed while others disagreed. However, overall, there was a general agreement with the fact that corporate governance applied to the context of SOEs.

**DESCRIPTIVE STATISTICS**

**Table 5:** *Descriptive statistics on causes of non-compliance with public entities CG Act* (Researcher, 2023)

**Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Mean response | Std. Deviation |
|---|---|---|---|---|---|---|
| Understanding the meaning of corporate governance | 230 | 1 | 5 | 4.60 | Strongly disagree | .541 |
| Applicability of corporate governance principles to SOEs | 230 | 1 | 5 | 4.57 | Strongly agree | .546 |
| Corporate Governance and performance of SOEs | 230 | 4 | 5 | 4.59 | Strongly agree | .493 |
| Poorly composed and ineffective boards | 230 | 4 | 5 | 4.52 | Strongly agree | .501 |

**Table 6:** *Descriptive statistics on causes of non-compliance with Public entities CG Act* (Researcher, 2023)

**Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Mean response | Std. Deviation |
|---|---|---|---|---|---|---|
| Poor remuneration or inappropriate incentives for Directors | 230 | 2 | 5 | 4.26 | Agree | .753 |
| Ineffective board committees | 230 | 4 | 5 | 4.47 | Agree | .500 |
| Weak internal control mechanisms | 230 | 4 | 5 | 4.51 | Strongly agree | .501 |
| Bureaucratic issues in SOEs | 230 | 2 | 5 | 4.52 | Strongly agree | .526 |
| Board members who are related or friends with CEOs | 230 | 4 | 5 | 4.56 | Strongly agree | .498 |
| Overall | | | | 4.51 | Strongly agree | .539 |
| Valid N (listwise) | 230 | | | | | |

Tables 5and 6 descriptive statistics results on corporate governance and performance of SOEs indicate a mean score of 4.59 and a SD of 0.493. This means that respondents had varied views on the subject, but the overall results (strongly agree) concurred that corporate governance reinforced the performance of SOEs. The objective of the study was to investigate the causes of non-compliance with corporate governance best practices, that is, noncompliance to the dictates of the Public Entities Corporate Governance Act Chapter 10.31. As such, descriptive statistics show poorly composed and ineffective boards with a mean score of 4.52 which, again, is approximately 5, corresponding with strongly agree. In that aspect, a very big SD of 0.501 implies that respondents possessed different views on this variable with some agreeing while others disagreeing. The overall interpretation is that respondents strongly agreed that poorly composed boards and ineffective boards caused noncompliance with best corporate governance practices.

The mean score for poor remuneration or inappropriate incentives for directors as a cause of non-compliance was 4.60 and the SD was 0.753, meaning that the respondents agreed with the assertion that poor remuneration or inappropriate incentives for directors resulted in non-compliance with best corporate governance practices. Although a huge SD of above 0.5 implies that respondents held varied views on variables under consideration, with some agreeing that poor remuneration or inappropriate incentives for directors resulted in noncompliance to best corporate governance practices and others disagreeing, the overall interpretation is that respondents agreed.

Furthermore, ineffective board committees as a cause of noncompliance with corporate governance best practices had a mean score of 4.47, almost 5, and corresponds with an agreement. A big SD of 0.546 implies that respondents held varied views on the issue of ineffective board committees as causes of non-compliance, with some agreeing and others disagreeing. However, overall, there was agreement that ineffective boards resulted in noncompliance with corporate governance best practices.

On weak internal control mechanisms as the cause of noncompliance, the mean score was 4.51 and the SD was 0.501, meaning that the respondents strongly agreed with the assertion that weak internal control caused non-compliance with best practices of corporate governance. A large SD of 0.501 implies that respondents held varied views on the issue of weak internal control mechanisms as causes of non-compliance, qs some agreed while others disagreed. Overall, there was agreement that weak internal control mechanisms resulted in non-compliance with corporate governance best practices.

The study sought to investigate causes of non-compliance with best corporate governance principles as enshrined in the Public Entities Corporate Governance Act. ureaucratic issues in SOEs were some of the factors assumed to be causing noncompliance. As such, a high mean score of above 4 meant that respondents were disagreeable. However, a large SD of 0.526 implies that there was a lot of variation in as far as bureaucratic issues in SOEs were causing non-compliance. Overall, the mean responses indicate that it was strongly agreed that bureaucratic issues in SOEs caused non-compliance with the provisions of the PECG Act which stipulates best corporate governance practices for SOEs in Zimbabwe.

The other item that was deemed to be the cause of noncompliance with corporate governance were board members who are related or friends with CEOs. This had a mean score of 4.56 (approximately 5) and corresponds with strongly agree. In the same view, a very big SD of 0.498 implies that respondents had a lot of variation on this variable as a cause of noncompliance with corporate governance practices. Some agreed while others disagreed. The mean response, however, shows that there was a largely strongly agreed response by board members who were related or were friends with CEOs as the cause of non-compliance.

The tables thus overall illustrate that there is strong agreement with the fact that respondents understood corporate governance. As such, respondents strongly agreed that the items explained the causes of non-compliance with the best principles of corporate governance. Summarily, as indicated in Tables 5) and 6, respondents on all variables were agreeable as evidenced by mean scores of above 4. However, huge SDs of above 0.5 imply that respondents held varied views on variables under consideration with some agreeing to the statement and others disagreeing. This signified variances in terms of the causes of non-compliance with the PECG Act across SOEs. Also, understanding the meaning of governance had a mean score of 4.60, which is close to strongly disagree. However, a very big SD of 0.541 implies that respondents held varied views on this variable, some agreeing while others disagreeing.

## DISCUSSION

In testing the hypothesis, the study used structural equation modelling (SEM) in AMOS[4]. Under the SEM, the state-owned enterprise (SOE) category was treated as a mediating construct that moderates the relationship between reforms and corporate governance practices. The research hypotheses that are going to be tested in this section are as follows:

**$H_1$:** Reform on Board appointment (RAB) leads to best corporate governance practices in SOEs.

**$H_2$:** Reform on remuneration for non-executive members (RRNE) has a positive effect on corporate governance practices by SOEs.

**Table 7**: *Results of hypothesis testing; effect of SOE reforms on corporate governance*

| **Hypotheses** | **Hypothesised Relationship** | **SRW** | **CR** | P values | **Remark** |
|---|---|---|---|---|---|

[4] Amos is a powerful structural equation modeling (SEM) software.

| | | | | | |
|---|---|---|---|---|---|
| **H1** | RAB → CG in SOEs | .016 | 13.254*** | .000 | Supported |
| **H2** | RRNE→ CG in SOEs | .271 | 9.008*** | .000 | Supported |

*Notes: SRW standardised regression weight, CR critical ratio, ** significant at $p < 0.05$, *** significant at $p < 0.001$, ns not significant, Adjusted R square 0.682*

**$H_1$** hypothesis was supported (SRW = 0.016, CR = 13.254, p = 0.000). This implies that reform on board appointments (RAB) led to the best corporate governance practices in SOEs. This finding confirms the association between board appointments and best corporate governance practices. Similar findings to support this view were conducted by Kota and Tomar (2010), who advance that in the era of financial malfeasance, corporate governance is significant. Theyexamined the effects of corporate governance practices on performance. Their results converged with the present study results by confirming that a significant relationship exists between board appointments and best corporate governance practices.

This finding corroborates the ideas of Puni and Anlesinya (2020), who suggest that reforming board appointments by having both executive and non-executive board members has a positive impact on a company‘s corporate governance practices. In support of a similar view, Sifile *et. al.* (2014) put forward that the appointment of boards has a positive effect on firm corporate governance practices.

**$H_2$** hypothesis was supported (SRW = 0.271, CR = 9.008, p = 0.000). This means that reform on remuneration for nonexecutive members (RRNE) has a positive effect on corporate governance practices by SOEs. This finding is in agreement with Sheikh, Shah and Akbar's (2018) findings that show that compensation for chief executive officers in developing nations has an impact on the financial performance of the company and is positively related to corporate governance practices.

The findings observed in this study mirror those of previous studies by Ntim *et al.* (2019) which have examined the remuneration of non-executive members that can moderate corporate governance practices. Ntim *et al.* (*ibid.*) find that by appointing remuneration committees which looked into the remuneration of both executive and non-executive directors, firm performance and corporate governance practices were enhanced.

## CONCLUSIONS AND RECOMMENDATIONS

The objective of the study was to investigate the causes of noncompliance with corporate governance best practices by SOEs. From the results of this objective, it was concluded that noncompliance with corporate governance was triggered by poorly composed boards, poor remuneration or inappropriate incentives for directors, ineffective board committees, weak internal control mechanisms, bureaucracy in SOEs and board members who were related to or were friends with CEOs.

Results of the study indicate that non-compliance has also emanates from issues to do with poor remuneration and inappropriate incentives for directors. In this dimension, it is recommended that the responsible ministry ensures that the budget adequately captures financing of benefits and remuneration for SOE boards.

Various reforms to do with the remuneration of executive and non-executive should be seriously considered. It means that there should be full implementation of the provisions of the PECG Act, to do mainly with conditions of service for the directors, so that they at least match those SOEs from the region or their counterparts in the private sector. The study results have also allude to ineffective board committees as one of the main causes of noncompliance with best corporate governance practices. Therefore, it is recommended that authorities, such as the Corporate Governance Unit in the Office of President and Cabinet or the State Enterprises Restructuring Agency, should organise more corporate governance training for boards. This will help ensure the effectiveness of board committees.

## REFERENCES


Admire, M. *et al.* (2023). The Impact of Implementing the Public Entities Corporate Governance Act (PECG Act), Chapter 10.31 by State-owned Enterprises (SOEs) in Zimbabwe. *Journal of Governance Risk Management Compliance and Sustainability*, 3(2), 1-16.

Amoako, G. and Goh, M. K. (2015). Corporate Governance Practices of State-owned Enterprises in Ghana: An Analysis. *The IUP Journal of Corporate Governance*, *14*(2), 4463.

Arkkelin, D. (2014). Using SPSS to Understand Research and Data Analysis. *Psychology Curricular Materials. 1(2).* 1194.

Asiamah, N., Mensah, H. and Oteng-Abayie, E.F. (2017). General, Target and Accessible Population: Demystifying the Concepts for Effective Sampling. *The Qualitative Report*, *22*(6), 1607-1621.

Bartholomew, D. J., Knott, M. and Moustaki, I. (2011). *Latent Variable Models and Factor Analysis: A Unified Approach (Vol. 904).* West Sussex: John Wiley and Sons.

Chigudu, D. (2020). Public Sector Corporate Governance: Zimbabwe's Challenges of Strategic Management in the Wake of Sustainable Development. *Academy of Strategic Management Journal*, *19*(1), 1-13.

Chigudu, D. (2021). Picking up Pieces of Good Corporate Governance to Sustain National Railways of Zimbabwe. *Indian Journal of Corporate Governance*, *14*(1), 27-47.

Chigudu, D. (2020). Public Sector Corporate Governance: Zimbabwe's Challenges of strategic management in the wake of sustainable development. *Academy of Strategic Management Journal*, *19*(1), 1-13.

Child, D. (2006). *The Essentials of Factor Analysis*. Leeds: A&C Black. Chimbari, P. (2017). Public Sector Corporate Governance in Zimbabwe: The Nexus between the ZIMCODE and State-owned Enterprises. *International Journal of Economics, Commerce and Management*, *5*(7), 212-221.

Creswell, J. W. *et al.* (2011). Best practices for

Mixed Methods Research in the Health Sciences. *Bethesda (Maryland): National Institutes of Health*, *2013*, 541-545.

Cronbach, L. J. *et al.* (1990). Robert R. Sears (1908–1989)*The American Psychologist, 45*(5),101-137

Dandaratsi, T. *et al* (2022). Corporate Governance and the Performance of State-owned

Enterprises,

Zimbabwe. *Futures*, *1*(1&2).

Frederick, W. R. (2011). Enhancing the Role of the Boards of Directors of State-owned Enterprises. OECD Corporate Governance Working Papers, Brussel: OECD.

Gordon, D. *et al* (2020). Collaborative Governance for Integrated Care: Insights from a Policy Stakeholder Dialogue. *International Journal of Integrated Care*, *20*(1).

Gakpo, M. D. Y., Ashigbey, K. K. and Kwakye, M. (2021). Corporate Governance and Performance of State-owned Enterprises in Ghana. *International Academic Journal of Economics and Finance*, *3*(6), 333-344.

Kock, N., Avison, D. and Malaurent, J. (2017). Positivist Information Systems Action Research: Methodological Issues. *Journal of Management Information Systems*, *34*(3), 754-767.

Kota, H. B. and Tomar, S. (2010). Corporate Governance Practices in Indian Firms. *Journal of Management and Organisation*, *16*(2), 266-279.

Kothari, C. R. (2007). *Research Methodology, Methods and Techniques*. New Delhi: New Age International (P) Limited.

Krejcie, R.V. and Morgan, D.W. 1970. Determining Sample Size for Research Activities. *Educational and Psychological Measurement*, *30*(3), 607-610.

Mukonza, R. M. (2013). Zimbabwe‘s New Constitution and Its Implications for Public Administration. World Academy of Researchers, Educators and Scholars in Business, Social Sciences, Humanities and Education. iIn association with the Academy of World Finance, Banking, Management and IT) Conference Proceedings, Volume 1 No. 1.

Ravitch, S. M. and Riggan, M. (2017). *Reason and Rigour: How Conceptual Frameworks Guide Research (2nd Ed.).* Thousand Oaks, CA: SAGE Publications, Inc.

Razali, N. M. and Wah, Y. B. (2011). Power Comparisons of Shapiro-Wilk, KolmogorovSmirnov, Lilliefors and Anderson-Darling Tests. *Journal of Statistical Modelling and Analytics*, *2*(1), 21-33.

Reddy, L. S. and Kulshrestha, P. (2019). Performing the KMO and Bartlett‘s test for Factors Estimating the Warehouse Efficiency, Inventory and Customer Contentment for the ERetail Supply Chain. *Int. J. Res. Eng. Appl. Manag.*, *5*, 113.

Ressouw. J. (2006). An Analysis of Macro Economic Convergence in SADC. *South African Journal of Economics, 74*(3), 380- 388.

Sarhan, A. A., Ntim, C. G. and Al Najjar, B. (2019). Board Diversity, Corporate Governance, Corporate Performance and Executive Pay. *International Journal of Finance & Economics*, *24*(2), 761-786.

Saunders, M.; Lewis, P.; Thornhill, A. (2009). *Research Methods for Business Students 5th Ed.* London: Pearson Education Limited .

Sheikh, M. F., Shah, S. Z. A. and Akbar, S. (2018). Firm Performance, Corporate Governance and Executive Compensation in Pakistan. *Applied Economics*, *50*(18), 2012-2027.

Shleifer, A. and Vishny, R. W. (1997). A Survey of Corporate Governance. *The Journal of Finance*, *52*(2), 737-783.

Sifile, O., Chiduku, E. and Chavunduka, D. (2015). Evaluating Corporate Disclosure and Transparency for Value Creation in Zimbabwean-listed Companies. *International* Conference on Business and Management Sciences (ICBMS'15) July 14-15, 2015 Harare (Zimbabwe).

Sifile, O. *et al* (2014). Corporate Board Failure in Zimbabwe: Have Non–executive Directors Gone to Sleep? *IOSR Journal of Business and Management*, *16*(7), 78-86.

Szarzec, K., Dombi, Á. and Matuszak, P. (2021). State-owned Enterprises and Economic Growth: Evidence from the Post-Lehman Period. *Economic Modelling*, *99*, 105490. Tabachnick, B. G., Fidell, L. S. and Ullman, J. B. (2007). *Using Multivariate Statistics, 5*, 481-498. Boston, MA: Pearson.

Tashakkori, A. and Creswell, J. W. (2007). The New Era of Mixed Methods. *Journal of Mixed Methods Research*, *1*(1), 3-7.

Thomas, A. (2012). Governance at South African State-owned Enterprises: What Do Annual Reports and the Print Media Tell Us? *Social Responsibility Journal*, *8*(4), 448-470.

Tricker, R. I. (2012). The Cultural Dependence of Corporate Governance *Keeping Good Companies*, *64*(1), 27-31.

Tsvere, M., Swamy, S. and Nyaruwata, T. L. (2013). Perceived Competence of Zimbabwean Academics in the Use of Information Technology in University Academic Business. *International Journal of Science and Research*, *2*(8), 284289.

Yusoff, W. F. W. and Alhaji, I. A. (2012). Insight of Corporate Governance Theories. *Journal of Business and Management*, *1*(1), 52-63.

Zimbabwe Office of the Auditor General (2018). Report of the Auditor General Financial Year Ended 31 December 2018..

Zvavahera, P. and Ndoda, G. R. (2014). Corporate Governance and Ethical Behaviour: The Case of the Zimbabwe Broadcasting Corporation. *Journal of Academic and Business Ethics*, *9(1)*, 1-7.