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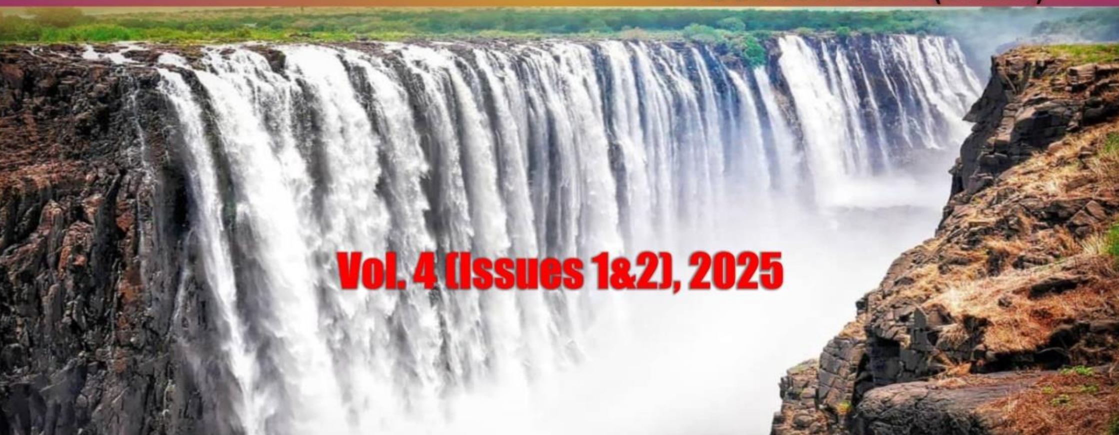

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THE EFFICACY OF INCENTIVES IN STRENGTHENING CORPORATE GOVERNANCE REGULATORY FRAMEWORKS IN STATE-OWNED ENTERPRISES IN ZIMBABWE

WILLARD MANUNGO[1], LAWRENCE POPERWI[2]AND MAXWELL SANDADA[3]

Abstract

The study examines the extent to which incentives strengthen the effect of the corporate governance regulatory framework on state-owned enterprises' (SOEs) performance. Little evidence exists about how to strengthen the corporate governance regulatory framework as prior studies focused more on the direct cause-effect link between corporate governance and organisational performance without bringing in the moderating effects of incentives on this relationship. The Agency Theory and the Stakeholder Approach underpins the study, complemented by Stewardship and Business Ethics Theories. Data was collected from 52 SOEs and covered 104 members of executive management,208 non-executive board members and 156 stakeholders (customers). Explanatory research design was used. Moderated multi-regression analysis was undertaken to analyse the quantitative data with the aid of SPSS. The study focuses on corporate governance within the existing regulatory framework, comprising the Constitution, the Public Entities Corporate Governance Ac, and SOEs' establishing acts and involved participants from boards, management and ministries who had served in their positions for at least three years. Despite these limitations, the representativeness of the sample size, as well as the rigour undertaken in terms of the analysis, validate the findings of this study. The study findings indicate that adherence to the corporate governance regulatory framework has a positive effect on the performance of SOEs. Incentives strengthen the relationship between compliance to the corporate governance framework and performance. The results from this study suggest the need for incentives for performance to strengthen the corporate governance regulatory

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framework and improve its effectiveness towards enhancing overall performance.

Keywords: Performance, incentives, performance, goods, services.

INTRODUCTION

State-owned enterprises (SOEs) in Zimbabwe are public-owned, and the purpose of their existence is to serve the citizenry and national interests. Corporate governance malpractices continue to be pervasive across SOEs in Zimbabwe, with various observations made to Parliament by the Office of the Auditor General (OAG, 2018) relating this to poor delivery of public goods and services. Performance assessment of forty-three (43) commercial SOEs over the seven-year period 2012-2018 indicates underperformance, notwithstanding gradual growth in the relative asset base, from US$8 billion in 2012 to US$9 billion in 2013, and US$13 billion by 2018. The 43 commercial SOEs generated losses, translating into a negative return on assets over this period. The aggregate net profit margin was negative for the 43 commercial SOEs, with the margin standing at -11% in 2014 and 2015, and -4% in 2018 - indicating failure to utilise their assets base efficiently. Under-employment of assets to generate expected returns was also reflected through negative return on assets (ROA), with the average over 2012-2018 at -2% against an expected ROA of 5%. Performance of annual gross revenue for the 43 commercial SOEs over seven years to 2018 remained at not more than the US$3.4 billion realised in 2012. Such a prevailing situation leaves SOEs in Zimbabwe facing growing pressure to improve performance, enhance competitiveness, operational efficiency, cost-effectiveness and reduction of fiscal risks in the delivery of public services. Central to this would be research outcomes informing on effective corporate governance regulatory frameworks to strengthen transparency, accountability and monitoring of SOEs governance and performance over the use of scarce public resources.

The problem points to the fact that the existing governance regulatory framework needs to be buttressed for it to be more effective in enforcing compliance. The study posits that incentives for complying with the corporate governance framework could help in making it more effective in terms of enforcing compliance. In this regard, the absence of incentives in existing corporate governance regulatory frameworks in Zimbabwe presents the research gap that this study seeks to address. Incentives can catalyse the effect of the corporate governance framework on the performance of public entities in Zimbabwe, thereby addressing the existing knowledge gap. This justifies investigating the efficacy of strengthening incentives on the corporate governance frameworks and SOE performance in Zimbabwe. Accordingly, the soundness and assessment of corporate governance regulatory frameworks should be based on practices that serve the best interests of a broader spectrum of stakeholders.

The article is structured beginning with an articulation of the research objectives and the study hypothesis. Thereafter, a review of the relevant theory and literature relating to incentives and corporate governance regulatory frameworks is undertaken. This is followed by an outline of the conceptual framework linking incentives as a moderator variable between the corporate governance regulatory framework and SOEs performance. The methodology employed in the research is highlighted, after which the details of the findings of the study are presented and discussed. The study concludes by highlighting the results of the research and the consequent recommendations in light of the findings, as well as the possible areas for further conduct of research.

RESEARCH OBJECTIVE

The objective of the study is to determine the extent to which incentives moderate the relationship between compliance with the corporate governance regulatory framework and performance of SOEs in Zimbabwe. In this context, the research hypothesis is that:

H1: Incentives moderate positively the relationship between compliance with the corporate governance regulatory framework and SOEs performance in Zimbabwe.

LITERATURE REVIEW

Literature on corporate governance regulatory framework and SOEs performance and the moderating effect of incentives are reviewed in this section.

CORPORATE GOVERNANCE INCENTIVES

Pursuant to the research objective, the study sets out to contribute to literature by examining whether incentives oriented towards organisational sustainability have a moderating effect on SOEs performance in Zimbabwe. Sustainable organisational performance requires an incentive structure that can help promote an SOE's value over a longer term. This may be at the expense of short-term returns (Flammer *et al*, 2012; Tsang *et al.*, 2021; Gao *et al.*, 2022). In accordance with the Agency Theory, shareholders, as principals, can pressure executives as agent to avoid decision-making biased towards preference for short-term returns over long-term ones (Gryglewicz *et al.*, 2020). Short-term components of compensation include salary, which is a contractual fixed component independent of an SOE's performance, and bonuses (Corporate Governance Unit, 2022). Similarly, the orientation of the current bonus structure practised across SOEs in Zimbabwe is short-term, and is not effectively utilised as an incentive for management to achieve sustainable long-term performance targets (*ibid.*). The incentive structure can be used as a corporate governance mechanism on boards and management to induce attainment of performance in SOEs, as well as other stakeholders' objectives (Flammer *et al.*, 2019; Ikram *et al.*, 2019; Radu and Smaili, 2022). This requires that incentive compensation be oriented towards long-term organisational sustainability, with boards and management investment and business decisions motivated to focus on growing future organisational value (Mamatzakis and Bagntasarian, 2021).

SOEs compensation contracts incorporate performance metrics to motivate boards and management to maintain stakeholders' interests (Flamer *et al.*, 2019; Ikram *et al.*, 2019; Radu and Smaili, 2021; Tsang *et al.*, 2021). This can entail relating incentive compensation contracts to both financial performance targets, such as earnings and other social and environmental targets, also in pursuit of maintaining an SOE's competitiveness and sustainability, better reputation, and growth in long-term organisational value (Flammer *et al.*, 2019; Ikram *et al.*, 2019). This way, integration of performance targets in incentive compensation as a corporate governance mechanism helps SOEs align managers' orientation and preferences from short-term returns on compensation and quarterly earnings targets to performance initiatives with potential long-term rewards. According to Gryglewicz *et al.* (2020), "incentives are provided in the optimal contract, by making the agent's compensation contingent on firm performance ….". This requires that "the optimal contract generates just enough incentives to the agent (i.e. incentive compatibility constraints are tight) because incentive provision comes with the threat of termination and is, therefore, costly to implement."

The Agency Theory suggests that strong corporate governance can help align stakeholder interests and improve the firm's financial performance through the establishment of an effective corporate governance system, involving putting in place control and oversight mechanisms to ensure that management acts in the best interests of shareholders, the citizenry in the case of SOEs in Zimbabwe. Hence, this theory indicates that compensating executives based on corporate performance can provide an incentive to work hard to increase the value of the organisation. According to Wajdi and Anis (2023), this can include executive compensation linked to company performance. Earlier studies by Yermack (1996), and Shleifer and Vishny (1997), which reviewed existing literature to examine the state of corporate governance, concluded that the Agency Theory is an important framework for understanding the relationship between corporate governance and financial performance, and that it can be used to develop effective governance mechanisms for firms. Drawing from the Stewardship Theory, Daily *et al.* (2003) point out that for the top management to protect their reputation, executives and directors are inclined to operate the firm profitably. Fama (1980) contends that executives and directors are also managing their careers in order to be seen as effective stewards of their organisation. The shareholders also provide some intrinsic and extrinsic motivation in the form of managerial perks to entice the steward to avoid succumbing to self-interest opportunity behaviours, which could fall short of congruence between the aspirations of the shareholders.

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

A robust corporate governance regulatory framework, rigorously enforced, has a direct impact on the extent to which entities embrace core principles of corporate governance. These principles include operational processes, internal controls, governance standards of risk management, compliance, transparency, board oversight, accountability, innovation, quality service and responsiveness (Dasuki and Lestari, 2019). Sound corporate governance takes into consideration various stakeholders' interests as underscored by the Stakeholder Theory. Key stakeholders of an entity include shareholders (investors), customers, employees, suppliers, Government, senior management executives and communities (*ibid.*; Pinto, 2019). It is important to highlight that the efficacy of the corporate governance regulatory framework in SOEs should be interpreted by stakeholders. Stakeholders in this context have been restricted to clients/customers of the SOEs' final products and services. This was necessitated by the need to manage the data.

THEORETICAL FRAMEWORK

The theoretical framework to this study is underpinned by the Agency Theory and the Stakeholder Theory, complemented by the Stewardship and Business Ethics Theories, providing a comprehensive lens to analyse how incentives can be effectively designed and implemented to strengthen corporate governance in SOEs in Zimbabwe. The Agency Theory (Jensen and Meckling, 1976) focuses on the principal-agent problem - where managers (*agents*) may pursue personal goals rather than act in the best interest of the state or citizens (*principals*). In the context of SOEs in Zimbabwe, this misalignment is frequently observed through rent-seeking behaviour and inefficiencies. Eisenhardt (1989) suggests that incentives such as performance-based bonuses, non-monetary recognition and promotion opportunities are tools that can re-align divergent interests. Entrenching such mechanisms in the corporate governance framework is, therefore, perceived as essential for reducing agency costs and improving accountability.

From the perspective of the Stakeholder Theory, incentives that promote transparency and ethical leadership can help SOEs executives consider broader stakeholder concerns, enhancing service delivery and public trust (Freeman, 1984). This is applicable to SOEs, mandated to deliver essential public goods and services. Furthermore, from a Stewardship Theory perspective, incentives are not limited to financial rewards, but extend to trust, empowerment, recognition and alignment with the organisation's mission and values (Davis, *et al.*, 1997). The application of the Stewardship Theory to SOEs in Zimbabwe suggests that incentive arrangements should also buttress intrinsic motivators such as public service codes and professional pride, to encourage responsible leadership and commitment to long-term institutional goals. Drawing from the Business Ethics Theory (Velasquez, 2006), incentive systems must not only drive performance but also foster ethical behaviour. Ethics-based incentives, such as recognition and awards for integrity and transparency, can be entrenched into governance frameworks to sponsor a culture of ethical accountability.

Juxtaposing agency, Stakeholder, Stewardship and Business Ethics Theories provides a holistic understanding of how incentives can be effectively leveraged to improve corporate governance in Zimbabwe's SOEs. Hence, the Agency Theory highlights the need to align interests, while the Stakeholder Theory expands the governance lens to a broader audience, with the Stewardship Theory emphasizing trust and organisational commitment, and the Business Ethics Theory advocating for moral and ethical accountability. Together, these theories inform a balanced, context-sensitive approach to incentive driven governance.

CONCEPTUAL FRAMEWORK

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

Furthermore, the study is also interested in bringing to the fore the moderating effects of incentives for compliance with the corporate governance regulatory framework on SOEs performance. In other words, the study seeks to understand how incentives can strengthen the effects of the governance framework on SOEs performance in Zimbabwe. A stakeholder perspective is undertaken. Such research provides deeper insights into the extent to which the corporate governance regulatory framework which is strengthened through incentives, can could impact the governance of SOEs in Zimbabwe and, in the process, proffer recommendations on how the regulatory framework can be reconfigured in an effort to improve management of SOEs.

Informed by the literature review, the context of the conceptual framework can be around the effectiveness of the legal and regulatory environment on the dependent variable, SOEs organisational performance, perceived in terms of operational processes and internal controls, best practice standards on board oversight, accountability, compliance, transparency and disclosure, innovation, risk management, quality service and responsiveness, in line with the principles of results-oriented governance and management (Al-Bassam *et al.*, 2018). Weak design, formulation and enforcement of effective legal corporate governance regulatory requirements can undermine and impact SOEs' performance.

In this study, the conceptual framework considers five independent variables, namely operational processes, internal controls, transparency, board oversight and quality service/customer orientation. The framework also has a moderating variable, namely incentives for complying with the regulatory framework. The variable is argued to be catalysing or enhancing moderating variable. It is hypothesised that it helps to strengthen the effect of the corporate governance regulatory framework on SOEs performance.

Figure 1 depicts the diagrammatic presentation of the study's conceptual framework.

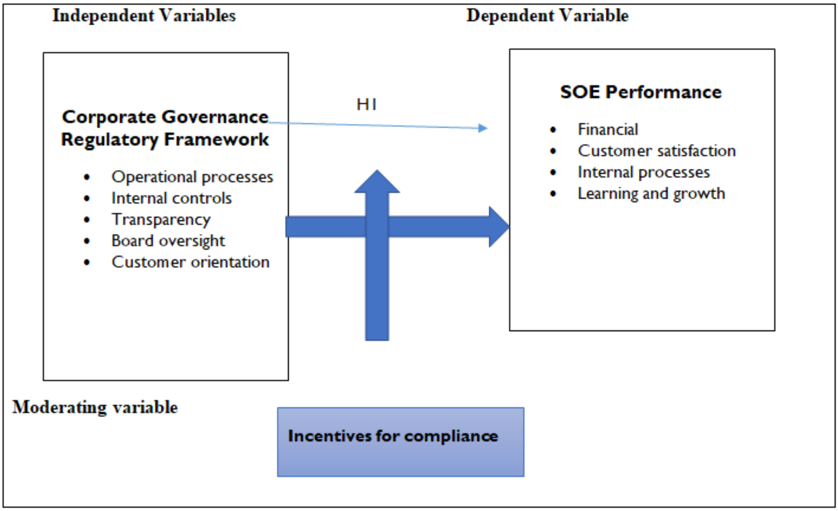

Figure 1: Conceptual Framework (Adapted from Kaplan and Norton,1996) and Al-Bassam *et al.*, 2018).

Measures of Corporate Governance Regulatory Framework Adherence

Building on the framework established by Al-Bassam *et al.* (2018), the independent variables of the corporate governance regulatory framework are assessed using the following metrics: operational processes, internal controls, governance standards for risk management, compliance, transparency, board oversight, accountability, innovation, quality of service, and responsiveness.

Furthermore, questions relating to the above metrics of the independent variable are derived from the standard questionnaire of the Association of Southeast Asian Nations (ASEAN, 2024). As earlier indicated, the conceptual framework for this study examines five of the above metrics, namely operations processes, internal controls, transparency, board oversight and quality service/customer orientation.

SOEs Performance Measurement

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

Internal process measures focus on the critical internal operations that enable the SOE to satisfy stakeholders' needs and expectations. The measures for the business processes that have the greatest impact on SOE performance relate to cycle time, quality, unit costs, employee skills, and productivity, adoption of critical technology capabilities and core competencies needed to ensure performance, clear targets for decisions and actions and improvement activities that contribute to SOEs overall performance; responsive operational information systems, e.g. for on-time delivery; existence of design productivity efficiencies and new product introduction. Hence, internal business process improvement measures that are most important for competitive success include the ability to innovate, introduce new products as reflected by sales, improve on operating efficiencies, penetrate new markets, process innovation in terms of rates of improvement for on-time delivery, cycle time, defect rates, process defects, and missed deliveries.

Customer orientation perspectives that reflect SOE performance from its customers' eyes are related to the time taken to deliver on customers' needs, quality and value for customers, with regard to defect levels of products and services, performance and service in terms of development and supply of innovative products tailored to meet customer needs. The study identifies the appropriate measures to include ranking by key customers to gauge the responsive supply of products and services in terms of SOEs' achievements of their goals and customer satisfaction. For information, the study turns to major customers through customer surveys. In addition to measures of time, quality, defect-free products and performance and service, the study also remains sensitive to the costs of access to SOE products and services. The following section focuses on the moderator variables in more detail.

Moderator Variable Measurement

The focus of the study on the measurement and quantification of incentives, as moderator variable, is on elements that serve as sub-variables applicable to both executive management and non-executive directors. The sub-variables relating to performance incentives include financial, realised through comprehensive reward management systems, in terms of job grading for high performers, job titling, benefits and administrative perks such as offices, parking, holidays; non-financial, such as promotion, company-wide acknowledgement, capacity building as well as national awards.

RESEARCH METHODOLOGY

Zimbabwe has a total of 107 SOEs (State Enterprises Restructuring Agency (SERA), 2022). The population encompasses commercial, non-commercial and regulatory entities. A statistically significant sample of SOEs was derived from this population. The total participants' population size comprises SOEs' 535 top management (on average five per entity) and 1070 non-executive board members (on average 10 per entity) to give a total of 1605 participants.

Sample and Sampling Procedures

Stratified random sampling method was used to sample the population of SOEs. This was done by categorising entities into homogeneous groups, namely commercial, non-commercial and regulatory entities. The SERA (2020) has it that Zimbabwe has 107 SOEs. Using the Raosoft method of calculating sample size at 5% margin of error and 95% confidence level, a minimum of 52 SOEs was recommended for this study. This sample caters for the quantitative dimension of this study.

Participating SOEs were randomly selected to minimise bias. Furthermore, stratified random sampling was employed to select participants. Participants who responded to an online questionnaire were categorised as executive management and non-executive board members. From each SOE, two participants were executive management, while four were non-executive board members.

Table 1: Sample of the Study *(Author compilation, 2024)*

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

Quantitative data was collected using an online-guided responses questionnaire, also known as closed-ended questionnaire. In closed-ended questionnaires, the respondent is asked to select a response from a list provided by the researcher. Closed-ended questions are very common because they provide a greater uniformity of responses and are more easily processed. In addition, closed-ended responses can often be transferred directly into a computer format (Babbie, 2014).

Reliability

The multi-dimensionality of the corporate governance regulatory framework and SOEs performance constructs necessitated testing the reliability of these constructs. Reliability is the ability of an instrument to produce consistent results whenever it is used repeatedly, using a representative sample and under similar conditions (Gitomer *et al.*, 2021). It is, therefore, important that a data collection instrument with multiple items be able to represent a complicated phenomenon and minimise random errors (Buffington *et al.*, 2021). The internal consistency reliability was ascertained using the Cronbach Alpha coefficient. According to Kalkbrenner (2021), internal consistency is critical in ensuring that the questionnaire items measure the same construct and in making sure that reliable data can be used to make inferences and, hence, draw conclusions. Internal consistency values (Cronbach's Alpha coefficient) range from 0 to 1, where 0-0.49 show that reliability is weak, while values between 0.5 and 0.69 show acceptable reliability, values ranging from 0.7 to 0.89 represent very strong reliability, and values from 0.90 to 1 show excellent reliability. Having tested the internal consistency, the study results are presented in Table 2.

Table 2: Reliability Statistics *(Author compilation, 2024)*

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

Table 2 shows that the reliability, as represented by Cronbach's alpha coefficients, for the corporate governance regulatory framework and SOEs performance, ranges from 0.721 to 0.951, thereby surpassing the minimum threshold of 0.7 (Kalkbrenner, 2021). This shows that the items for individual constructs measured the same construct and that there were minimum random errors. The internal consistency for the overall questionnaire was accepted as it scored 0.961, which is higher than the benchmark of 0.7, and this demonstrates that the instrument used was reliable and, hence, it implies that the data of this study can be used to make conclusions about the extent to which incentives can strengthen the effect of the corporate governance regulatory framework on SOEs performance in Zimbabwe.

After confirming the reliability of the individual constructs and the overall scale, additional tests were conducted to establish the validity of the questionnaire, as detailed in the ensuing section.

VALIDITY

This section outlines the validity tests conducted to evaluate the suitability of the instrument for collecting data on the corporate governance regulatory framework and SOEs performance. Validity, a key element of scale quality, refers to the extent to which an instrument measures what it is intended to measure (Surucu and Maslakci, 2021). Content validity was ensured through a literature review, a pilot study involving 30 respondents (excluded from the main study), and consultations with academic and industry experts, resulting in improvements to the instrument for clarity and accuracy. Construct validity, defined as the ability of the instrument to measure the intended constructs accurately (Nielsen *et al.*., 2021), was assessed using convergent and divergent validity tests. Convergent validity, tested through Pearson correlation analysis, demonstrated significant positive correlations among the five corporate governance framework constructs and SOEs performance, indicating alignment with the common construct of corporate governance. Divergent validity, assessed through correlation statistics, confirmed that the constructs were distinct, as respondents distinguished between the corporate governance framework dimensions and SOEs performance (Ljótsson *et al.*, 2020). Predictive validity was evaluated through regression analysis, where the model, comprising five independent variables, incentives as moderators and SOEs performance as the dependent variable, was found statistically significant ($p < 0.05$), affirming its predictive power (Otero *et al.*, 2020). Quantitative data were processed using SPSS Version 26, with moderated multiple regression analysis conducted through Hayes' (2013) Process tool to examine the moderating effects of incentives, following Aguinis' (2004) approach to moderator analysis.

FINDINGS

This section presents key findings of the study.

Regression Analysis with Moderation of Incentives

The moderating effects of incentives were done to ascertain whether they have a catalyst or deterrent effect on the relationship between *internal controls, board overview, operational control, customer orientation and transparency* and *SOEs performance*. The idea was to establish if *incentives* have an effect on strengthening or weakening the influence of *SOE performance* in Zimbabwe. Considering hypothesis 1, it was hypothesised that *incentives* strengthen the relationship between *compliance with* the corporate governance framework and SOEs performance in Zimbabwe. Therefore, the enterprise whose effect was less affected by *incentives* was deemed to be the most effective in yielding better performance than the one with a high negative impact. The results are presented in the next sub-sections.

Moderating Effects of Incentives on Internal Controls and SOEs Performance

To confirm whether *incentives* act as a moderating variable in the relationship between *internal controls and SOEs performance*, a regression analysis with moderation effect was used. The following hypothesis was used to verify if there is a moderating effect from incentives on the relationship between *internal controls and SOEs performance* in Zimbabwe.

H_1: Incentives strengthen the relationship between internal controls and SOEs performance in Zimbabwe.

The results of the moderating effect of incentives on relationship between *internal controls and SOEs performance* in Zimbabwe are presented in Table 3.

Table 3: Incentives Effect on Internal Controls and SOEs Performance (Author compilation, 2024)

Internal Control	Coefficient	T-statistic	p-value	R^2	Adjusted R^2	F Ratio
Model without moderation effect						
Constant	.035	.038	.970	0.250	0.244	42.861
Internal Control	.453	8.372	.000			
Incentives	-.240	-4.428	.000			
Model with Moderation Effect						
Constant	-1.419	-1.456	.147	0.291	0.283	35.037
Internal Control	.576	9.341	.000			
Incentives	-.248	-4.705	.000			
Interaction	.237	3.846	.000			

Table 3 shows that with the inclusion of interaction effect of *incentives* in the relationship between *internal controls* and *SOEs performance*, the value of R Squared (R^2) has increased from 0.250 to 0.291 and that of Adjusted R Squared has also increased from 0.244 to 0.283. Thus, the adjusted R^2 value shows that about 28.3% of the variation in SOEs performance is represented by internal controls where incentives work as a moderator. Furthermore, though still more accurate prediction about firm *SOEs performance* could be done (F-ratio > 1) with the inclusion of the interaction effect of *incentives* and *internal controls*, this accuracy has decreased as indicated by the F-ratio from 42.861 to 35.037. Finally, the model with moderation effect has a statistical significance (p-value) of 0.000 for the interaction effect which shows that the null hypothesis of having no moderating effect of incentives on the relationship between *internal controls* and *SOEs performance* in Zimbabwe is rejected because the p-value is less than the significance level used in the study at $p \leq 0.05$. Thus, incentives strengthen the relationship between *internal controls* and *SOEs performance* in Zimbabwe.

Moderating Effect of Incentives on Board Overview and SOEs Performance

To confirm whether incentives act as a moderating variable in the relationship between *board overview* and *SOEs performance*, a regression analysis with moderation effect was used. The following hypothesis was used to verify if there is a moderating effect from *incentives.*

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

Results of the moderating effect of incentives on relationship between board overview and SOEs performance in Zimbabwe are presented in Table 4.

Table 4: Incentives Effect on Board Overview and SOEs Performance *(Author compilation, 2024)*

Board overview	Coefficient	T-statistic	p-value	R^2	Adjusted R^2	F Ratio
Model without moderation effect						
Constant	.485	.676	.500	0.397	0.392	84.452
Board overview	.608	12.226	.000			
Incentives	-.078	-1.559	.120			
Model with Moderation Effect						
Constant	.731	.955	.341	0.399	0.392	56.552
Board overview	.607	12.204	.000			
Incentives	-.096	-1.792	.074			
Interaction	.048	.922	.357			

Table 4 illustrates that with the inclusion of interaction effect of incentives in the relationship between board overview and SOEs performance, the value of R Squared (R^2) has increased from 0.397 to 0.399, and that of Adjusted R Squared has remained the same at 0.392. Thus, the adjusted R^2 value shows that about 39.2% of the variation in *SOEs performance* is represented by board overview where *incentives* work as a moderator. Furthermore, though still more accurate prediction about *SOEs performance* could be done (F-ratio > 1) with the inclusion of the interaction effect of *incentives* and *board overview*, this accuracy has decreased as indicated by the F-ratio from 84.452 to 56.552. Finally, the model with moderation effect has a significance of 0.357 for the interaction effect which shows that the null hypothesis of having no moderating effect of *incentives* on relationship between *board overview* and *SOEs performance* is not rejected because the p-value is greater than the significance level used in the study at $p \leq 0.05$. Moreover, the p-value of *incentives* shown in model without moderating effect is at 0.120 which is not statistically significant at $p \leq 0.05$. Thus, incentives do not work as an independent variable or a moderator in influencing the relationship between *board overview* and *SOEs performance.*

Moderating Effect of Incentives on Operational Control and SOEs Performance

To validate whether incentives act as a moderator in the relationship between *operational* control and *SOEs performance*, a regression analysis with moderation effect was used. The following hypothesis was used to verify if there is a moderating effect from incentives.

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

Results of the moderating effect of incentives on relationship between *operational control* and *SOEs performance* in Zimbabwe are presented in Table 5.

Table 5: Incentives Effect on Operational Control and SOEs Performance *(Author compilation, 2024)*

Operational control	Coefficient	T-statistic	p-value	R^2	Adjusted R^2	F Ratio
Model without moderation effect						
Constant	.811	1.268	.206	0.474	0.470	115.784
Operational control	.677	14.467	.000			

Incentives	-.042	-.897	.370			
Model with Moderation Effect						
Constant	.979	1.427	.155	0.475	0.469	77.184
Operational control	.679	14.466	.000			
Incentives	-.056	-1.093	.275			
Interaction	.034	.682	.496			

Table 5 shows that with the inclusion of the interaction effect of *incentives* in the relationship between *operational control* and *SOEs performance*, the value of R Squared (R^2) has increased from 0.474 to 0.475 and that of Adjusted R Squared has decreased from 0.470 to 0.469. Thus, the adjusted R^2 value shows that about 46.9% of the variation in *SOEs performance* is represented by *operational control,* whereas incentives work as a moderator. Furthermore, though still more accurate prediction about *SOEs performance* could be done (F-ratio > 1) with the inclusion of the interaction effect of incentives and *operational control*, this accuracy has decreased as indicated by the F-ratio from 115.784 to 77.184. Finally, the model with moderation effect has a non-statistical significance (p-value) of 0.496 for the interaction effect which shows that the null hypothesis of having no moderating effect of *incentives* on the relationship between *operational control* and *SOEs performance* is not rejected because the p-value is greater than the significance level used in the study at $p \leq 0.05$. Moreover, the significance of incentives shown in the model without moderating effect is at 0.370 which is statistically non-significant at $p \leq 0.05$. Thus, *incentives* do not work as an independent variable or moderator in influencing the relationship between *operational control* and *SOEs performance* in Zimbabwe.

Moderating Effects of Incentives on Customer Orientation and SOEs Performance

To confirm whether incentives act as a moderating variable in the relationship between *customer orientation* and *SOEs performance*, a regression analysis with moderation effect was used. Hypothesis was used to verify if there is a moderating effect from incentives to the relationship between *customer orientation* and *SOEs performance* in Zimbabwe. The results are presented in Table 6 based on the following hypotheses.

H_1: Incentives strengthen the relationship between customer orientation and SOEs performance in Zimbabwe.

Table 6: Incentives Effect on Customer Orientation and SOEs Performance (Author compilation, 2024)

Customer Orientation	Coefficient	T-statistic	p-value	R^2	Adjusted R^2	F Ratio
Model without moderation effect						
Constant	-.618	-.729	.466	0.788	0.786	477.277
Customer orientation	.900	29.988	.000			
Incentives	.047	1.563	.119			
Model with Moderation Effect						
Constant	-.295	.092	.927	0.790	0.787	320.555
Customer orientation	.898	29.978	.000			
Incentives	.021	.610	.002			
Interaction	.050	1.515	.014			

Table 6 reveals that with the inclusion of interaction effect of incentives in the relationship between *customer orientation and SOEs performance*, the value of R Squared (R^2) has increased from 0.788 to 0.790 and that of Adjusted R Squared has also increased from 0.786 to 0.787. Thus, the adjusted R^2 value shows that about 78.7% of the variation in SOEs performance is represented by *customer orientation,* whereas *incentives* work as a moderator. Furthermore, though still more accurate prediction about firm, SOEs performance could be done (F-ratio > 1) with the inclusion of the interaction effect of *incentives* and *customer orientation*, this accuracy has decreased as indicated by the F-ratio from 477.277 to 320.555. Finally, the model with moderation effect has a p-value of 0.014 for the interaction effect which shows that the null hypothesis of having no moderating effect of *incentives* on the relationship between *customer orientation* and *SOEs performance* is rejected because the p-value is less than the significance level used in the study at $p \leq 0.05$. Thus, incentives strengthen the relationship between c*ustomer orientation and SOEs performance* in Zimbabwe.

Moderating Effect of Incentives on Transparency and SOEs Performance

To confirm whether incentives act as a moderating variable in the relationship between *transparency* and *SOEs performance*, a regression analysis with moderation effect was used. The following hypothesis was used to verify if there is a moderating effect from *incentives* and results are presented in Table 7.

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

Table 7: Incentives Effect on Transparency and SOEs Performance (Author compilation, 2024)

Transparency	Coefficient	T-statistic	p-value	R^2	Adjusted R^2	F Ratio
Model without moderation effect						
Constant	2.006	3.071	.002	0.400	0.395	85.634
Transparency	.597	12.318	.000			
Incentives	-.167	-3.436	.001			
Model with Moderation Effect						
Constant	2.096	3.195	.002	0.404	0.397	57.841
Transparency	.608	12.377	.000			
Incentives	-.178	-3.619	.000			
Interaction	.066	1.324	.019			

Table 7 shows that with the inclusion of the interaction effect of *incentives* in the relationship between *transparency* and *SOEs performance*, the value of R Squared (R^2) has increased from 0.400 to 0.404 and that of Adjusted R Squared has increased from 0.395 to 0.397. Thus, the adjusted R^2 value shows that 39.7% of the variation in SOEs performance is represented by *transparency,* whereas *incentives* work as a moderator. Furthermore, though still more accurate prediction about SOEs performance could be done (F-ratio > 1) with the inclusion of the interaction effect of *incentives* and *transparency*, this accuracy has decreased as indicated by the F-ratio from 85.634 to 57.841. Finally, the model with moderation effect has a statistical significance (p-value) of 0.019 for the interaction effect, showing that the null hypothesis of having no moderating effect of *incentives* on relationship between *transparency* and *SOEs performance* is rejected because the p-value is less than the significance level used in the study at $p \leq 0.05$. Moreover, the significance of *incentives* shown in model without moderating effect is at 0.001, which is statistically significant at $p \leq 0.05$. Thus, incentives strengthen the relationship between *transparency* and *SOEs performance* in Zimbabwe.

DISCUSSION OF RESULTS

The moderating effect of incentives in the relationships between internal controls, board overview, operational control, customer orientation and transparency against SOEs performance in Zimbabwe was assessed and presented in the section above. The interaction effect results indicated that internal controls were at IE=0.237; p=0.000, board overview (IE=-0.096; p=0.074), operational control (IE=0.034; p=0.496), customer orientation (IE= 0.050; p=0.014) and transparency (IE= 0.066; p=0.019).The study concludes that incentives do partially strengthen the relationship between compliance with the corporate governance framework and SOEs performance in Zimbabwe. The findings indicate a mixed outcome of statistically significant positive interaction effect and non-significant effect of incentives on the relationship between compliance with the corporate governance framework and SOEs performance in Zimbabwe. Incentives, comprising cash and non-cash emoluments, represent SOEs overall compensation philosophy and structure in support of the performance of directors, the chief executive officer, other senior management and employees. This requires establishing performance-based elements that reward the achievement of targets, tied to the SOE's long-term strategic plan for creating and enhancing enduring value. Performance incentives should be clearly outlined, transparent and subject to evaluation, with safeguards against abuse. Where targets are not met, payment should be at risk. However, incentives for business growth and strong financial performance should not encourage excessive risk-taking, pursuit of unsustainable short-term gains, and such unintended outcomes as potential for conflicts of interest that undermine the duty of directors to represent the interests of all shareholders and stakeholders. Design of performance targets should align the interests of directors and management to those of the citizenry, the ultimate SOEs shareholders and stakeholders.

The finding that incentives partially strengthen the relationship between compliance and SOEs performance is consistent with the Agency Theory, which suggests that strong corporate governance can help align stakeholder interests and improve the firm's financial performance through the establishment of an effective corporate governance system, involving putting in place control and oversight mechanisms that ensure that management acts in the best interests of shareholders, the citizenry in the case of SOEs in Zimbabwe. In this way, the theory indicates that compensating executives, based on company performance, can provide an incentive to work hard to increase the value of the company. According to Wajdi and Anis (2023), this can include executive compensation linked to company performance, hence, reaffirming this study's findings partially confirmed the positive relationship incentives have on SOEs performance. This further validates the earlier study by Yermack (1996), as well as that by Shleifer and Vishny (1997), which examine the state of corporate governance research using a review of the existing literature and concluded that the Agency Theory is an important framework for understanding the relationship between corporate governance and financial performance, and that it can be used to develop effective governance mechanisms for firms.

Using multi-variety regression based on feasible generalised least squares (FGLS) models, Wajdi and Anis (2023) also found in their research study on the impact of the implementation of effective corporate governance on the financial performance of 160 companies in the UK between 2005 and 2018 that "by establishing appropriate incentives and controls, corporate governance can help reduce conflicts of interest and improve the company's financial performance by increasing the value of the company and the return on investment for shareholders", measured by the return on equity. However, on the other hand, Xie *et al.* (2019) found that there is a negative and significant association between executive compensation on the one hand, and financial performance on the other hand.

CONCLUSION AND RECOMMENDATIONS

It has been established from the study findings that incentives strengthen the relationship between compliance with the corporate governance framework and SOEs performance in Zimbabwe. This is supportive of hypothesis H1 that, incentives moderate the relationship between compliance with the corporate governance framework and SOEs performance in Zimbabwe. Hence, it is concluded that incentives do partially strengthen the relationship between compliance with the corporate governance regulatory framework and SOEs performance in Zimbabwe.

Building on the findings of the study on the moderating effect of incentives in the relationship between governance and SOEs performance in Zimbabwe, the functionality of SOEs boards should be strengthened by the development of effective reward systems that facilitate the operation of professional teamwork and performance cultures motivated beyond remuneration through the existing board sitting and retainer allowance system. This would be crucial for inculcating a sense of ownership among cadres of analytical, transparent and ethical board members, who are loyal to the organisation's shared goals and values, strategically focused and capable of delivering on an SOE's mission and vision, without requiring consistent close monitoring and supervision. The conclusions of this study recommend that the Public Entities Corporate Governance Act provides the framework for incentivising performance at SOEs in Zimbabwe beyond the current system of board fees, and the remuneration framework pertaining to fixed contracts of employment for chief executive officers and senior management of public entities. Furthermore, SOEs' human resource policies should be reviewed in line with a results-based incentive framework for chief executive officers and other senior management, and cascading to all ranks of employees across SOEs in Zimbabwe. The design of incentives for the performance of SOEs directors and management in Zimbabwe should contain in built safeguards and claw back provisions, to protect against criteria for rewards that would recognise short-term gains which undermine sustainable long-term performance. Hence, a framework for implementing an effective and sustainable incentive plan, whose provisions are aligned to governance guidelines on remuneration and rooted in market best practices, is recommended.

The Government, as shareholder and principal, drawing from the Agency Theory, must define the desired SOEs organisational goals necessary to achieve the required performance targets. It is recommended that the corporate governance regulatory framework be reviewed to embrace legislative amendments that clearly outline and define the incentives for performance, and align them to measurable results and outcomes. In this regard, clarity and transparency over the targets executive and non-executive directors are required to meet will be necessary to avoid a disconnect from meaningful organisational outcomes and misdirection that results in SOEs management teams perceiving incentives as entitlements, rather than an uncertainty at risk in the event of non-performance. Targets should be based on outcomes executives can influence directly through their decisions and actions, that way sustaining motivation and commitment. Executives should not only know what the targets are, but also understand how these targets contribute to the company's broader objectives, and that this should involve regular strategic alignment sessions and detailed documentation of set goals and targets for improved organisational performance (Blair 2024).

It is recommended that the design of incentive structures for improved performance of SOEs be premised on a combination of monetary and non-monetary rewards. Under this, bonus payments are tied to the realisation of specified outcomes. Non-monetary incentives can relate to professional development, opportunities, recognition, additional autonomy and resources to support personal and professional growth. It is also recommended that incentive rewards for performance reflect levels that proportionately match the anticipated efforts required of directors and management to achieve results, inclusive of relating incentive rewards to compliance with corporate governance metrics, and customer satisfaction.

LIMITATIONS AND AREAS FOR FURTHER STUDY

The research is limited to examining SOEs within a single jurisdiction, employing a single country analysis approach. Future studies should expand this scope by incorporating cross-country analyses, which provide deeper insights into the moderating effects of incentives across different contexts. Additionally, the study focuses exclusively on SOEs with government as the sole shareholder. Future research should explore varying ownership structures, such as entities with private sector or family ownership stakes. This would allow for a broader investigation into the efficacy of incentives in improving the performance of privately held corporations. SOEs in Zimbabwe also play a crucial role in advancing national reforms aimed at climate mitigation and adaptation. This presents opportunities for further research to identify gaps in current climate policies and practices within SOEs compared to global best practices. Such research can guide interventions for integrating climate action into SOE policies and corporate governance frameworks. Strengthening these aspects can support Zimbabwe's pursuit of its climate objectives. Outcomes from future studies in this area contribute to enhanced compliance monitoring and reporting, improved financial oversight of SOEs and the integration of climate finance considerations into financial management practices. Furthermore, such efforts facilitate the establishment of public-private partnerships, fostering collaboration between sectors to achieve shared climate goals.

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