

BINDURA UNIVERSITY OF SCIENCE EDUCATION

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTANCY



**AN INVESTIGATION INTO THE FINANCIAL CHALLENGES AFFECTING
STATE-OWNED ENTERPRISES IN ZIMBABWE.**

A CASE OF ZIMBABWE CONSOLIDATED DIAMOND COMPAN(ZCDC)

BY

(B223916B)

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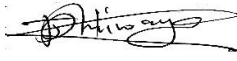
DECLARATION

I Justice Dhliwayo (B223916B), hereby declare that this work is the result of my individual investigation and study. Consultation and final decisive contributions appear under respective references or sources, no part of this thesis has been submitted or considered for any degree at this university or any other university or institute.

Date.....23-08-2026.

Researcher's signature

B223916B.....

 ..

APPROVAL FORM

The undersigned confirm that they provided academic guidance for **B223916B**, whose dissertation titled: An investigation into the financial challenges affecting state-owned entities in Zimbabwe. A case of Zimbabwe Consolidated Diamond Company (ZCDC) was submitted as part of the requirements of Bachelor of Accountancy Honors Degree.

1. SupervisorDr T. Famba

Signature

Date..28-08-2026



2. Chairman of the Department...Mr O Manyani

Signature.....



Date...29-08-2026.

RELEASE FORM

Name of author B223916B

Project title: **“An investigation into the financial challenges affecting state-owned entities in Zimbabwe”**

Firm: Zimbabwe Consolidated Diamond Company (ZCDC)

Degree title: **Bachelor of Accountancy Honors Degree**

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SIGNATURE...

Shingay

DATE...23-08-2026.....

Residential Address: 1866 North Avenue Aspindale Park, Harare, Zimbabwe

Contact number: 0788304094

Email address: dhliwayojustice75@gmail.com

DEDICATIONS

Devoted to my family and friends.

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I would like to first of all render my thanks and appreciation to the almighty God for giving me the opportunity to complete the present project, it is by His own grace and mercy that I have come to this present status. Secondly, I would like to thank my supervisor for his hard work and tremendous effort in making sure that I am able to adhere to the required and recommended standards. Lastly, my thanks and appreciation are given to my family and friends for the moral encouragement, their positive advices are still ringing in my ears.

ABSTRACT

State-owned enterprises (SOEs) play a pivotal role in Zimbabwe's socio-economic development through employment creation, revenue generation and provision of strategic goods and services. However, many SOEs continue to face persistent financial challenges affecting their operational efficiency and long-term sustainability. This study investigated the financial challenges affecting the Zimbabwe Consolidated Diamond Company (ZCDC). The objectives were to identify the principal financial challenges, examine internal and external contributory factors, assess their impact on organizational performance and recommend practical strategies for improvement. The study adopted a convergent parallel mixed-methods research design within a single case study framework. Data were collected using structured questionnaires administered to 59 managerial and supervisory employees and documentary analysis of financial statements and Auditor-General's reports covering 2020-2025. Quantitative data were analyzed using descriptive and inferential statistics, while qualitative data were analyzed thematically. The findings revealed that ZCDC faces severe financial distress characterized by chronic working capital shortages (96.6% agreement), supplier payment delays (91.5%) and accumulated short-term debt (88.1%). Both internal weaknesses including weak financial controls and irregular procurement and external factors particularly excessive fiscal regime (10% royalty on gross revenue) and exchange rate volatility contributed significantly to these challenges. Documentary analysis confirmed deteriorating financial performance, with the current ratio declining from 0.78 to 0.43, debt-to-equity ratio escalating to 3.68 and net profit margin widening to -6.5%, culminating in a going concern warning in 2025. The study recommends reducing the royalty burden, permitting export earnings retention, professionalizing board appointments, strengthening procurement transparency and improving cash flow forecasting strategies. The study contributes empirical evidence to understanding SOE financial distress in resource-rich developing economies.

Keywords: Financial challenges, liquidity, financial performance, Zimbabwe Consolidated Diamond Company (ZCDC), Operational costs, financial sustainability.

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LIST OF ACRONYMS

GDP	Gross Domestic Product
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
RBZ	Reserve Bank of Zimbabwe
SOE	State-Owned Enterprise
SOEs	State-Owned Enterprises
SPSS	Statistical Package for the Social Sciences
ZACC	Zimbabwe Anti-Corruption Commission
ZCDC	Zimbabwe Consolidated Diamond Company
ZIMSTAT	Zimbabwe National Statistics Agency

CHAPTER I

INTRODUCTION

Introduction

State-owned enterprises (SOEs) remain strategically placed in the Zimbabwe's economic arena as vehicles for creating employment, earning revenue as well as providing essential services and goods to its citizens. The enduring financial underperformance of these state-owned enterprises has thus remained an increasingly worrisome cause for concern to policy-makers, tax payers and development stakeholders. This study examines the underlying causes of these financial problems in Zimbabwean state-owned enterprises by placing particular emphasis on the experiences of the Zimbabwe Consolidated Diamond Company (ZCDC), the single state-owned custodian of Marange diamond fields. In this inaugural chapter, the background to the problem, the research problem, aims and objectives of the research, research questions, significance of the study, the scope of the study and limitations of the study are presented. The chapter concludes by giving an overview of the subsequent chapter, through a brief description of the contents.

Background of the Study

Zimbabwe's performance since the year 2000 have shown an extreme instability of Macroeconomics, de-industrialization and fiscal deficits. They had an era of hyper-inflation in which the Zimbabwe dollar was abandoned in 2009 in exchange for a multi-currency arrangement dominated by the US dollar, which persisted until 2019 when the local currency, first introduced as the RTGS dollar and now the Zimbabwe dollar was re-introduced bringing in new challenges; a flight from the US dollar which resulted in rapid inflation in the currency, high currency fluctuations which resulted in the "informalization of the economy" and "triple digit inflation which greatly reduces real incomes of households and severely restricts the capacity of business to plan" (International Monetary Fund, 2022, p.1). The International Monetary Fund had during the 2024 Article IV consultation highlighted that due to the prevailing dual-currency environment, strong speculative pressures on the parallel market and quasi-fiscal operations by the Reserve Bank of Zimbabwe (RBZ) continued to hinder monetary policy Credibility and increase the cost of doing business for the entire economy, including State Owned Enterprises (SOEs) (IMF, 2024).

With this general context of the extreme volatility in macroeconomic dynamics of Zimbabwe, I need to also put in account the financial position of over 100 State owned enterprises which comprises SOEs and public parastatals.

The state enterprises sector in Zimbabwe, though has been the subject to several policy reform documents, continued to be disastrous in terms of its total financial results. Auditor General Reports from 2018 up to 2023 demonstrate that majority of Public Enterprises don't submit audited financial statements and some fail to meet their liquidity position even after the timely submission. According to a 2020 World bank report on Zimbabwean Public Expenditure, government transfers and implicit subsidies to Loss Making State enterprises have negatively "crowded out allocations to the social sectors, and government guarantees issued to public firms create contingent liabilities worth nearly US\$2 billion" (World Bank, 2020, p.8). The Government of Zimbabwe itself acknowledge that the parastatal sector "remains a drain on the fiscus" and pledged to carry commercialization, partial or full privatization or out-right liquidation of unsustainable operations (Government of Zimbabwe, 2021). Unfortunately, these policies were not rapidly implemented as they faced resistance from entrenched political actors, limited institutional capacity of existing public agencies and failure to adopt suitable legislation to prevent politicians from using resource revenue to increase their personal consumption (Natural Resource Governance Institute, 2023). Diamond Mining Sector, among such financially distressed state-owned companies, is of considerable symbolic and political weight.

Diamonds fields are located in the district of Marange, Chiadzwa Ward of Manicaland Province, which were officially discovered mid 2000s and are explored through joint ventures with state and private stakeholders. However, a 2019 parliamentary portfolio committee reported that declared diamond export receipts were significantly lower than expected from 2008 to 2015 with systemic corruption and money laundering costing billions of dollars to national economy (Parliament of Zimbabwe, 2019). Following the scandals of diamond mining, joint venture licenses were cancelled in 2016 and a wholly owned State Mining Company of Zimbabwe, Marange-Resources was integrated with some elements of other collapsed diamond mining companies under the name Zimbabwe Consolidated Diamond Company (ZCDC).

Based on a forensic Audit report on Diamond Mining Operations of 2021, ZCDC was formed to promote transparency and sustainability in diamond mining and to directly contribute to the

national Treasury through improved diamond mining, beneficiation, and marketing and it held an exclusive claim to extract diamonds in the Marange diamond fields (Auditor-General of Zimbabwe, 2021).

ZCDC's financial track record is far from being the success promised by its creation. In their 2018,2019,2020, 2021, and 2022 annual reports, the Auditor General gave “qualified opinion” on their financial statement due to material uncertainties that raise significant doubt as to ZCDC’s ability to continue as a going concern due to adverse financial position, significant operational losses and continuing operating cash flow deficits (Auditor-General of Zimbabwe, 2023). Oral evidence to the Mines Committee of Parliament revealed that the company has made very meager dividend remittance to the shareholder (Government) over the years, mainly citing lack of working capital as one of the impediments as well as legacy debts from former JV partners, import of spare parts and fuel as major cost constraints (Parliament of Zimbabwe, 2022). In addition to that, investigative reports published by the Zimbabwe Environmental Law Association (ZELA) and several media organizations highlighted "irregularities in procurement procedures, an imbalanced and corrupt marketing strategy and under-priced beneficiation contracts that devalued Zimbabwe's diamonds"(ZELA, 2021; Newsday Zimbabwe, 2023; The Herald, 2022).

Adding to the complexity of these issues, is the country’s risk premium as well as external market pressure. Global diamond demand and supply conditions are very volatile and subject to shocks. Since Covid-19, demand for the gemstone has slowed down significantly, especially to two main market of USA and China (Bain & Company, 2023).

The brand “Marange” is tainted with allegations of human right abuses and many diamond companies worldwide and in Western countries are shunning diamonds originating from the area, therefore reducing the prices that Zimbabwean diamonds would attract. On the other side, the domestic economy’s instability continues to cause cash flow mismatch to ZCDC which operates with the bulk of its cost in USD while is selling some of the products in the local market while local cost and price indices increase significantly and government charges royalties of 10% on export revenue from minerals that is, if you earn US\$10, you lose \$1 (Natural Resource Governance Institute, 2023). The current mining tax regime and regulations including cash rationing by the Reserve bank also leave little for capital expenditure and thus hinder transition to more complex kimberlitic pipe mining after alluvia extraction depletion.

Although the financial situation of Zimbabwe's diamond producer is extremely critical to the fiscal revival of the nation, surprisingly, there is a very few scholarly analysis on the specific financial mismanagement pathologies within ZCDC. Existing academic analyses on state owned enterprises in Zimbabwe often aggregates performance indices by level of governance without any serious attempts to critically analyze corporate finance, liquidity and profitability of specific state-owned enterprises (Moyo & Sibanda, 2021). Studies on Zimbabwe's diamond sector are more on social impact and political economy issues rather than focusing on their business and finance aspect (Ncube, 2020; Ndebele & Ndlovu, 2021).

It is due to this gap that the present study undertakes a deeper analysis of the financial issues and challenges facing ZCDC in order to provide theoretical-based evidence in which decision-making process at managerial and policy level will be guided for financial improvement of the company and the overall SOE Reform agenda.

1.2 Problem Statement

Zimbabwe Consolidated Diamond Company, the state-owned custodian of the Marange diamond fields has persistently failed to declare dividends, run itself into debt and sustained losses. This is no longer at a non-concern level, with the company given a going concern notice and about to exhaust its resources base with no funding mechanism for its successor. Repeated parliamentary and audit queries about a breakdown of governance, procurement and a regressive fiscal framework which captures about 10% of all sales as revenues, haven't been subject of detailed scholarly treatment in an effort to diagnose and determine the causal agents and consequences of its financial vulnerability on viability. It is thus, this study's ambition to examine the nature of ZCDC's financial predicament, explore its causal factors, establish its implications on operational long-term survival and suggest well-founded interventions.

1.3 Research Objectives

The main aim of this study is to investigate the financial challenges affecting state-owned entities in Zimbabwe, with specific reference to the Zimbabwe Consolidated Diamond Company.

Sub research objectives:

1. To identify the principal financial challenges currently affecting the Zimbabwe Consolidated Diamond Company.

2. To examine the internal and external factors that contribute to these financial challenges at ZCDC.
3. To assess the impact of the identified financial challenges on the operational performance and long-term sustainability of ZCDC.
4. To propose practical strategies that can be adopted by ZCDC and policymakers to mitigate the identified financial challenges.

1.4 Research Questions

1. What principal financial challenges currently affecting the Zimbabwe Consolidated Diamond Company?
2. What are the internal organizational and external factors driving these financial challenges at ZCDC?
3. How do these identified challenges affect ZCDC's operational efficiency, profitability and long-term sustainability?
4. What actionable strategies can be implemented by ZCDC and government to address these challenges and enhance the company's viability?

1.5 Significance of the study

This research is expected to make a meaningful contribution to several stakeholders, whose interests are outlined below.

To the Zimbabwe Consolidated Diamond Company: The exercise will render to the management a diagnostic report backed by empirical data on the various cashflow bottlenecks and financial leakages currently affecting performance. Instead of engaging with externally produced rationalizations and explanations, ZCDC shall finally have a robust analysis of financial areas of concern including but not limited to cashflow management, debt composition, capital deficiency and leakages caused by the company's financial governance structures. All the resulting reports will inform the development of a focused financial strategy which will result in an effective turnaround process, a strengthening of internal controls, improved investor and stakeholder engagement as well as an assurance of the organization's commercial viability and ability to yield value for the shareholder in the form of dividends.

To Policymakers: This study will inform the Government of Zimbabwe, particularly the ministries of Finance, Economic Development and Investment Promotion and Mines and Mining Development by providing independent empirical evidence that clarifies a large SOE's actual financial reality. The results will include recommendations regarding SOE reform governance, sovereign debt restructuring solutions and coordination of public sector mining investment efforts with fiscal goals which can guide modifications to the country's parastatal reform agenda, enforcement of aspects of the Public Finance Management Act and drafting of SOE executive performance contracts.

To Bindura University of Science Education: For the academic purpose the university will gain a locally grounded and policy-relevant research product as it contributes to the university's profile on applied research in extractive sector governance and public finance management. The research can be useful for students in the Faculties of Commerce and social sciences, research staff in mining, finance and Zimbabwean economy and to a lesser extent performance of parastatals. It may offer a basis for collaboration with private sector entities as ZCDC.

To the Researcher: The research meets one of the conditions for university education and adds to researcher's academic competencies on financial analysis, corporate governance, and extractive industry. It presents an opportunity to develop further research skills: gathering both qualitative and quantitative data from an intricate organization. The outcomes will contribute at the professional level, increasing the competence as a financial analyst, consultant and public advisor.

1.6 Assumptions

This study is based on a number of assumptions. Firstly, it is assumed that the management and employees of ZCDC will be willing to participate in the research and will give honest, accurate and complete information in the questionnaire surveys. Secondly it is assumed that the researcher will have reasonable access to relevant secondary data such as annual reports and audited financial statements and internal memos, without these the extent of the financial analysis would be limited. Thirdly, it is assumed that Zimbabwe's economic conditions with their currency and policy volatility would be stable enough to enable financial data to be meaningfully interpreted without having to rescale constantly during the data collection period. Fourth, it is assumed that the respondents selected who come from the finance, operations and corporate strategy divisions have the necessary background in the company's financial affairs. Lastly, it is assumed that the situation

of ZCDC is sufficiently representative of other financial dynamics of state-owned enterprises in Zimbabwe which generate revenue to allow for cautious generalization of the findings of the analysis.

1.7 Delimitations of the study

The study has boundaries that are set to keep the focus and make it feasible. Firstly, the main subject is state-owned entities in Zimbabwe with the empirical study being delimited to one entity, the Zimbabwe Consolidated Diamond Company. The findings are therefore quite relevant to ZCDC and can be extended to other SOEs. Secondly, the content domain is limited to financial issues, namely liquidity, solvency, profitability, capital structure, revenue management and does not include a broader consideration of non-financial factors, such as environmental impact or community relations, unless they have a direct financial impact. Thirdly, the population of interest is restricted to the managerial and supervisory staff of the Finance, Administration, Operations and Audit departments at ZCDC headquarters and Marange mining complex where they are considered to be most knowledgeable about the phenomenon being investigated. Lastly, the study will take place in the geographical area of Zimbabwe, and the actual fieldwork to be carried out will be in Harare and Manicaland Province.

1.8 Limitations of the study

Notwithstanding careful research design, this study faces certain inherent limitations. The most significant limitation is the sensitivity of financial information within a state-owned enterprise accused of opacity; ZCDC may restrict access to detailed financial records, compelling the researcher to rely more heavily on self-reported perceptions and publicly available, aggregated data. Closely related is the risk of social desirability bias, where respondents may present a window-dressed version of the company's financial health to protect personal or institutional reputations. The single-case study design, while allowing for depth, limits the statistical generalizability of findings to other SOEs in Zimbabwe or the region. Lastly, the study is conducted during a period of domestic currency turbulence, the translation of financial values into stable analytical units may present challenges and could affect year-on-year comparability of financial indicators.

1.9 Definition of terms

Financial performance: Organizational performance as a financial perspective on the organization as it relates to its success in using its funds to produce profits, liquidity, solvency, efficiency and sustainability (Atrill and McLaney, 2021).

Liquidity: refers to the organization's ability to meet its short-term debts as they become due without disrupting normal day to day running of the business.

Working capital: Describes the gap between a business's current assets and current liabilities and reflects a company's working finance available to pay their obligations on time (Brigham & Ehrhardt, 2022).

Financial sustainability: It is the ability of the company to generate adequate finances in order to operate itself, in order to fund expansion and also to continue existing.

Operational costs: these are the expenses incurred in the normal course of the business operations including labour, maintenance costs and production costs (Drury, 2021).

1.10 summary of Study

The chapter has provided a basis for an investigation on the financial problems faced by state-owned entities in Zimbabwe with the case of Zimbabwe Consolidated Diamond Company as an instrumental case. It presented the paradox of SOE underperformance in resource-rich countries and set the study in the Zimbabwean unique economic crisis and SOE reform agenda. The background explained the historical process of concentrating diamond mining in ZCDC and highlighted some ongoing and little studied financial problems. They developed objectives and related research questions to systematically identify, analyze and prescribe solutions to these challenges. The assumptions, limitations and delimitations set boundaries for the study, and the significance of the study was articulated for ZCDC, policymakers, Bindura University and the researcher. The relevant theoretical and empirical literature on the financial problems of SOEs, in particular in the natural resource sector, will be reviewed to build the conceptual framework for the inquiry, which will be presented in the next chapter.

CHAPTER II

LITERATURE REVIEW

2.0 Introduction

This chapter outlines the theoretical and empirical literature. This is to ensure that the current research does not duplicate the previous studies. After literature review, a gap analysis is then provided.

Theoretical framework

The financial crisis of state-owned enterprises is a phenomenon with many causes, which cannot be explained fully by means of one theoretical tradition. The research thus adopts a combination of theories, known as eclectic framework, which includes agency theory, financial distress theory, public choice theory and resource dependence theory. These theories, when viewed in combination, shed light on the internal governance issues, market and financial stress, political economy and external resource constraints that combine to form ZCDC's financial situation.

2.2.1 Agency Theory

According to Jensen and Meckling (1976), the basic concept of agency theory is the contractual relationship between a principal and his/her agent. The main issue is that of interest conflict between principal and agent, worsened by information asymmetry when the agents are able to pursue their own interests at the expense of the principal's wealth (Fama/Jensen, 1983). The traditional principal agent problem is between shareholders and managers in the corporate world. State ownership, however, makes it subject to unique challenges. The ultimate principals are the citizens whose interests are supposed to be protected by a chain of political agent parliament, cabinet ministers, board members before the company management. This long and diffuse chain results in many agency relationships, each of which is vulnerable to moral hazard, adverse selection and weak monitoring (Shirley & Walsh, 2000).

In state-owned enterprises, agency costs are likely to be high because there is no incentive for the shareholder who is not a physical person, to monitor the firm's performance in order to increase its value. An SOE manager could aim to build an empire to have too many employees, to undertake

prestige projects or to be politically aligned rather than to be cost effective or profitable (Vining & Boardman, 1992). The issue is exacerbated in organizations such as ZCDC where the state is the owner and regulator, which can be a source of laxity in budgeting and insulate management from product and capital market constraints (Kornai, 1980). Empirical evidence indicates that the quality of the corporate governance mechanisms, especially those of board independence, the existence of audit committees and transparency of financial reporting, is a key determinant of the severity of agency costs in SOEs (Bozec & Dia, 2019). Agency theory offers a model to analyze how the structure and functioning of the board of directors, the quality of internal and external audit and the management of the shareholder ministry could have resulted in governance failures that allowed financial mismanagement to take place and shareholders' value to be eroded in the ZCDC context.

2.2.2 Financial Distress Theory

Financial distress theory is a theory that helps explain when a firm will be unable to meet obligations as they come due and the ways it can either get through it or fall into distress. The notion was given a more formal expression by Beaver (1966), and by Altman (1968) who derived predictive models from financial ratios. Wruck (1990) subsequently described financial distress as a situation where a firm has negative liquid assets that is, its liquid assets are less than its current liabilities, which will result in some corrective measures being taken, such as selling assets, restructuring operations, or embarking on the formal process of insolvency. The literature makes a difference between what is called economic distress, which implies a decrease in competitiveness or decrease in the productivity of the assets and the so-called financial distress, which can be due to inadequate capital structure or to a temporary mismatch in liquidity, although the company is otherwise viable (Outecheva, 2007).

Financial distress can be attributed to internal and external factors. The internal causes are such as poor cash flow management, excessive leverage, over-investment in non-productive assets, deficient cost control and weak strategic management (Habib et al., 2020). Externally induced shocks include macroeconomic recessions, industry-specific shocks (like commodity price drops), regulation and sudden credit market tightening. In the case of mining companies, the high level of fixed costs, long time invested and the exposure to the fluctuating markets of world commodities render them particularly susceptible to financial distress. Dzingirai and Muvunzi (2022) used

Altman's Z-score model, which is for use in emerging markets, to analyze a sample of Zimbabwean parastatals and concluded that over 50% of the sampled parastatals were in the distress zone. Based on their analysis, they found that negative operating cash flow, short-term debt and a lack of investment in revenue-generating assets are the best indicators of continuing financial distress. Financial distress theory therefore provides the present study with diagnostic tools, namely, liquidity ratios, leverage ratios, interest coverage and cash flow adequacy measures to identify if ZCDC is technically in distress and with an analytical structure which can be used to trace the specific internal and external causes of distress.

2.2.3 Public Choice Theory

Public choice theory uses the methodological individualism of neoclassical economics and applies it to political behaviour, where politicians, bureaucrats and voters are all treated as rationally self-interested actors (Buchanan & Tullock, 1962; Mueller, 2018). It does not assume that state actors are benevolent and are trying to maximize public good. Rather, it assumes that politicians strive to maximize their votes, personal wealth and power; and that bureaucrats strive to maximize their budgets, influence and job security. With these kinds of incentives and in combination with state control of productive property, the outcome is predictable: SOEs are tools for patronage, revenue extraction and political control rather than commercial operations.

In a developing country with an abundance of natural resources, high mineral rents and poor democratic institutions can be a recipe for what public choice theorists call rent-seeking expenditure of resources to capture artificially created economic rents, instead of creating new wealth (Krueger, 1974). The 'resource curse' literature, much like that of public choice, suggests that resource windfalls are likely to lead to a deterioration of governance, an increase in public sector jobs and a distribution of wealth to politically connected individuals in the form of political rents, as opposed to a general raise in productivity and development (Auty, 1993; Sachs & Warner, 2001). In Zimbabwe, scholars have documented how opaque marketing arrangements and inflated procurement contracts to politically exposed individuals, and party loyalists into management positions within Zimbabwean mining parastatals, have accompanied the state ownership of mineral assets (Zinyama & Nhema, 2020; Chikweti & Mutandwa, 2023). Public choice theory thus provides a theoretical framework to analyze how political interference, rent-seeking activities and

the pursuit of non-commercial goals might have contributed to the financial bleeding of ZCDC over and above the market factors and operational inefficiency.

2.2.4 Resource Dependence Theory

According to Pfeffer and Salancik (1978), a resource dependence perspective sees organizations as open systems that need to obtain critical resources such as financial capital, raw materials, technology, skilled personnel and sociopolitical legitimacy from an uncertain and competitive external environment. These interdependencies lead to power differentials and an organization's survival depends on its ability to manage them, for example, with board interlocks, strategic alliances, joint ventures, political lobbying, and vertical integration (Hillman, Withers & Collins, 2009). The basic idea of the theory is that the actions, structure and functioning of an organization are significantly influenced by the way it manages uncertainty in its environment and by the way it strives for regular input of resources.

The network of interdependencies is especially tight for a state-owned diamond-mining business. The government is a key dependency for ZCDC, as it is for the mining license, fiscal concessions, and political support. It relies on international diamond buyers, auction houses and middlemen to access the market and generate revenue. It relies on domestic and external financial institutions for financing working capital and capital expenditure on the back of Zimbabwe's inadequate domestic capital market and the very high price of foreign financing in view of Zimbabwe's sovereign risk rating. Relying on foreign suppliers of specialized mining equipment and technology. Moreover, relying on a single commodity makes the company vulnerable to external fluctuation in commodity prices, which is completely out of its control. In the case of Zimbabwean SOEs, Mlambo and Zindiye (2021) found that the degree of external resource dependency interacted with the relationships between management quality and financial performance, with more diversified funding structures, multiple buyer relationships and stable input supply chains exhibiting more resilience to economic shocks. Resource dependence theory therefore allows the reader to view the external linkages of ZCDC with government ministries, the Reserve Bank of Zimbabwe's exchange control and foreign currency retention policies, international diamond markets and the domestic financial sector and how they limit the financial flexibility of ZCDC and leave the company vulnerable in a way that cannot be addressed through independent action.

2.2 Empirical review

This section examines the empirical literature on financial outcomes of state-owned enterprises, deliberately focusing on the extractive sector and in the context of Zimbabwe. The empirical review, unlike the previous theoretical examination, which outlines potential causal mechanisms, describes what has been observed and quantifiable in real-world conditions. The review is structured in a thematic manner, beginning at the global level and ending at the local level, and from general literature on the SOE to specific literature on the financial dynamics of the diamond mining parastatals.

2.3.1 The Global context: Financial Performance of State-Owned Enterprises

It is a consistent finding in the academic and policy literature on SOE's financial performance that there is a profitability gap between state-owned and privately owned firms, and that the extent and reasons for this gap are dependent on the institutional context. An early detailed analysis by Boardman and Vining (1989) of 500 of the largest non-US companies revealed that state-owned and mixed ownership enterprises had lower profits and productivity than private companies, even after controlling for size, market share and industry. Later studies confirmed that SOEs on average, have lower ROA, higher leverage, and lower labour productivity particularly in competitive industries (Megginson & Netter, 2001). The global trend of privatization and corporatization in the 1990s and 2000s brought about a more complex picture. Where SOEs were subjected to hard budget constraints, independent regulation, competitive neutrality, and robust disclosure requirements, the performance gap narrowed considerably (Christiansen, 2013).

According to a more recent cross-country analysis conducted by the World Bank (2020) for a sample of SOEs in 25 sub-Saharan African countries, the median ROA for wholly state-owned enterprises was minus 2.3 percent, whereas the median ROA for similar private companies in other countries was positive at 4.1 percent. Weak board governance, politically motivated pricing of outputs, excessive employment and weak financial reporting standards were the main correlates of underperformance. The International Monetary Fund (IMF) 2022 Fiscal Monitor also reported that distressed SOEs can result in contingent liabilities that account for a median of 5.8 percent of GDP across a group of 40 emerging market and developing economies, with the largest shares found in Sub-Saharan Africa and South Asia (IMF, 2022). Such entrenched trends indicate that state ownership is not necessarily incompatible with financial viability, but the institutional

prerequisites for the success of SOEs, political insulation, transparent governance and market-based performance incentives are often not present in developing countries.

2.3.2 Governance, Political Interference, and SOE Financial Outcomes

There is strong empirical evidence on the importance of quality of governance for SOE financial performance. La Porta, Lopez-de-Silanes and Shleifer (2002) showed that government banks held were negatively related to financial development and economic growth, which signaled the harmful consequences of politicized lending and governance capture. From now on, the findings of such studies on non-financial sectors have confirmed these results. For example, in a broad sample of European companies, Borisova, Brockman, Salas, and Zagorchev (2012) discovered government ownership was negatively linked to the cost of debt and credit ratings, which they explained by the perception of political risk and the lack of governance protection. Politically connected CEOs are suboptimal in the emerging market because they pull managerial resources from efficiency to politics; Lin, Ma, and Su (2019) conducted a study on Chinese SOEs and concluded that politically connected SOEs underperformed their counterparts especially during economic downturns.

African scholarship has provided evidence within their own context. In the study of parastatals in Nigeria, Okike (2007) attributed the endemic financial reporting failures and fraud to a governance setting of politically appointed boards and non-performance to audit recommendations. Using 40 parastatals audited financial statements for Zimbabwe from 2015 to 2019, Moyo and Sibanda (2021) conducted an analysis. Their regression analysis showed that one important factor in predicting negative ROE and high debt ratios was board political connectedness, as indicated by the percentage of directors who had previously served in top party and government positions. Financial distress also was closely correlated with the number of CEO changes often resulting from political factional infighting. These findings are in line with the agency and public choice theory predictions and highlight the importance of considering the composition of the board of directors, the appointment procedures and the stability of the executive director position at ZCDC as potential sources of financial weakness.

2.3.3 Extractive Industry SOEs and the Resource Curse

National oil companies and state mining enterprises play a unique role in the SOE sector, due to the size of rents that they control and strategic importance of the resources that they manage. The

‘resource curse’ thesis, as formulated by Auty (1993) and extended by Sachs and Warner (2001), is a theory which holds that the abundance of natural resources is associated with lower growth rates than the absence of natural resources, resulting from a mix of commodity price volatility, Dutch disease effects and a failure of governance institutions. The role of state-owned extractive companies is pivotal in this context, as it is through them that resource rents enter the state and their management is what will ensure that they are invested beneficially or wasted on corruption and inefficiency.

A comparative study of the performance of state mining companies has been done thoroughly. McPherson (2010) analyzed the performance of eight national oil companies, and found that those with performance contracts and clear commercial goals and limited political interference greatly outperformed those with traditional ministerial control structures. Besada and Martin (2021) did a comparative case study on the diamond sector between Debswana (50/50 joint venture between the Government of Botswana and De Beers) and Namdeb (Namibian equivalent) and Zimbabwe's various state-controlled diamond vehicles. They discovered that Debswana and Namdeb were able to consistently deliver significant dividends to their government shareholders, thanks to a combination of three factors: professional management free from political appointments; a marketing agreement with De Beers which guaranteed price stability and market access; and a well-defined fiscal regime that enabled the companies to keep a fixed share of profits for exploration and capital investment. By contrast, Zimbabwe's diamonds industry, which has seen several changes of hands, marketing agents chosen by political fiat and a fiscal regime that took a large share of the revenue without reference to commercial viability, has provided little net returns to the treasury, despite its geological potential. In 2022, the African Natural Resources Management and Investment Centre (2022) analyzed audit reports of the state-owned diamond companies in Angola, the Democratic Republic of Congo and Zimbabwe, and found that they all suffer from a similar syndrome: under-valuation of rough exports in collusion with foreign buyers, inflated service contracts to politically connected intermediaries and accumulation of arrears within the country which are later assumed by the state. The comparative evidence indicates that the financial problems facing ZCDC are not only related to geology or technical ability but also highly embedded in the political and institutional structure of the governance of diamond resources in Zimbabwe.

2.3.4 Diamond Sector Economics, Price Volatility and Market Dynamics

The diamond industry has specific economic attributes which have a direct impact on the financial wellness of producer-country SOEs. Diamonds are not like oil or copper, where you can simply weigh and measure a sample, they depend on an interplay of carat weight, colour, clarity and cut, and are a commodity that takes a unique set of skills to value. In the past, De Beers controlled the industry and had a single channel marketing system that involved putting diamond prices into a buffer stock system to stabilize prices (Zimnisky, 2015). The collapse of this system in the late 1990s brought about a more discontinuous market with more transparency over prices and more volatility. According to Zimnisky (2015), rough diamond prices have varied up to 30 percent within a year since 2010, depending on the consumer demand in China and the United States as well as on the stockpiles in Indian cutting and polishing centers and on Russian supply shocks.

Since 2016, the natural diamond market has faced a structure challenge in the form of lab-grown diamonds. The annual reports published by Bain & Company have highlighted the swift growth of the lab-grown sector: In 2018, the sector's value represented less than 2% of the total global diamond jewellery market but by 2023, this figure had risen to around 20%. The prices of smaller, lower-quality, natural rough stones, in which the majority of Marange diamonds fit, have been under constant downward pressure from the presence of lab-grown stones which are significantly cheaper to produce than mined stones, and are being sold as more ethical and environmentally friendly. Bain & Company (2022) forecasted a medium-term CAGR of only 1-3 percent for natural rough diamond prices coupled with an increase of 5-7 percent per annum for production costs of high-cost producers during the transition from alluvial to underground kimberlite mining, which could potentially lead to unsustainable financial performance.

These market conditions are reflected directly on the revenues and margins of ZCDC, a company which relies on just a single commodity and on a few rough diamond categories. Chitiyo and Chipa (2023) built a financial model for the operation of ZCDC, including all the fiscal costs of the 10 percent mineral royalty and corporate income tax. Their sensitivity analysis showed that as soon as the global rough prices dropped below US\$60 per carat, the ZCDC's alluvial mining operations turned cash-negative without taking into account capital replacement and exploration costs, a price that was repeatedly broken in the period between 2020 and 2023. This finding highlights the fragility of a state-owned mono-product miner to a market in which it has no control, and the need

to consider how the financial planning and risk management capabilities of ZCDC react to price cyclicity.

2.3.5 Internal Financial Management Practices and SOE Distress

In addition to governance and market, the daily financial management of enterprises, including working capital management, capital budgeting, cost control and treasury operations, have been found to be close determinants of financial health. In a meta-analysis of studies across 30 developing countries, Afrifa and Tingbani (2020) found that having an excessive-inventory days and slow collection of receivables and using short term debt to finance long term assets were amongst the most consistent factors affecting financial distress of SOEs. They found that many state-owned entities were also holding inventories that are 2-3 times the size of their private sector counterparts, consuming capital that could otherwise be used to pay off debt or invest in capital.

Shin and Soenen (1998) had already found a significant negative correlation between cash conversion cycle and profitability of the firm in the United States and it was extended by Deloof (2003) and Ebben and Johnson (2011) to the emerging market firms and small and medium businesses respectively. The message is that even if the basic business of an SOE is sound, a lack of awareness and management of the operating cash cycle can lead to a chronic liquidity shortage, which eventually spirals into a solvency issue. This pattern is reflected in the Zimbabwean parastatals. In Zimbabwe, Tadu and Marire (2022) conducted a mixed methods study of mining parastatals which revealed weaknesses in procurement controls, poor stock management, unreconciled bank accounts and lack of cash flow forecasting to be endemic. The interview data of the study found that finance department officers sometimes were under political pressure to make payments that were not approved in the budget, which violates the integrity of the financial management system. Based on these findings the present study focuses on cash conversion cycle, capital budgeting procedures, procurement procedures and the internal control environment as the immediate causes of the financial problems at ZCDC.

2.3.6 The Zimbabwean SOE Landscape: Persistent Underperformance

The economic problems of state-owned enterprises in Zimbabwe is not a new phenomenon but structural condition of the post-independence economic system, worsened by the economic crises of the 2000s. Pre-hyperinflationary period, Zhou and Zvoushe (2007) carried out financial analysis of 25 parastatals and found that most of them were not able to generate enough revenues to pay

running costs with the majority reporting negative net profit margins and receiving significant government subventions. As well as destroying financial records, hyperinflation also led to real assets being eroded, in many cases leaving a legacy of weak balance sheets which many entities were never able to rebuild.

The Auditor-General has reported on the systematic non-compliance with the Public Finance Management Act [Chapter 22:19] in successive reports since the introduction of multi-currency from 2009. For instance, in the 2018 report, 29 out of 93 public entities audited were able to submit their financial statements on time, of which 42 per cent receive a qualified or an adverse audit opinion (Auditor-General of Zimbabwe, 2019). Most frequently reported irregularities included related party transactions not disclosed, government grants not accounted for, unsupported expenditure and unreconciled revenue accounts. The Parliamentary Portfolio Committee on Public Accounts has also noted concern about the failure to take action, with the same entities and the same audit issues occurring year after year and with no action taken (Parliament of Zimbabwe, 2020).

Zimbabwe Coalition on Debt and Development (ZIMCODD, 2021) estimated the combined losses of the 20 biggest lossmaking SOEs to be around US\$1.2 billion (about 8 percent of GDP) between 2016 and 2020. These losses were also a significant opportunity cost, because that money could have been spent on health, education and infrastructure but instead went to entities that provide little public benefit. The study identified mining parastatals as especially opaque, with the often lack of basic financial information making external accountability virtually impossible. This systemic opacity and chronic loss making is the context in which ZCDC functions, and to which its own financial problems should be addressed.

2.3.7 Financial Challenges of ZCDC: Evidence and Reports

The specific financial difficulties of ZCDC have been documented, albeit in a fragmented manner, through a combination of official audit reports, parliamentary inquiries, media investigations, and civil society monitoring. The Auditor-General's forensic audit report on diamond mining operations (Auditor-General of Zimbabwe, 2021) was especially revealing. The audit found that ZCDC could not provide complete and verifiable records of diamond sales for several financial years, that there were material unreconciled differences between production records and sales invoices, and that the company had entered into significant procurement contracts without

competitive bidding, some of which were allegedly awarded to entities with no track record in mining services. The report also noted that ZCDC had failed to remit the full amounts of mineral royalties and the fidelity levy due to the Zimbabwe Revenue Authority, accumulating arrears that attracted penalties and interest.

Further insights have been given by successive presentations of ZCDC management to the Parliamentary Portfolio Committee on Mines and Mining Development. During 2020, management has explained that the company's inability to pay the dividend to the shareholder was due to working capital constraints, the cost of servicing legacy debts (from the former joint ventures) and the investment required to transition from alluvial to conglomerate mining. During the 2022 hearing, the committee was not happy that even though global rough diamond prices had improved, ZCDC's financial situation had not materially improved, with management attributing it to the high cost of imported fuel and machinery, exchange rate losses on foreign currency-denominated obligations as well as the lingering effects of statutory levies (Parliament of Zimbabwe, 2022). Media reports, which are also subject to validation, have suggested that there is irregular beneficiation contract that may be undervaluing rough stones, there are disagreements with international marketing agents regarding commission, and off-budget expenditure for political activities (Zimbabwe Independent, 2023). As a whole, the reports depict a firm that is under severe, all-encompassing financial strain, without the systematic, theory-based analysis that would identify symptoms and root causes, or that would create a comprehensive turn-around approach.

2.4 Conceptual framework

A conceptual framework is a visual and narrative representation of the relationships among the variables under investigation. It assists the researcher in organizing ideas, identifying relationships between variables and guiding data collection and analysis (Miles, Huberman & Saldaña, 2020).

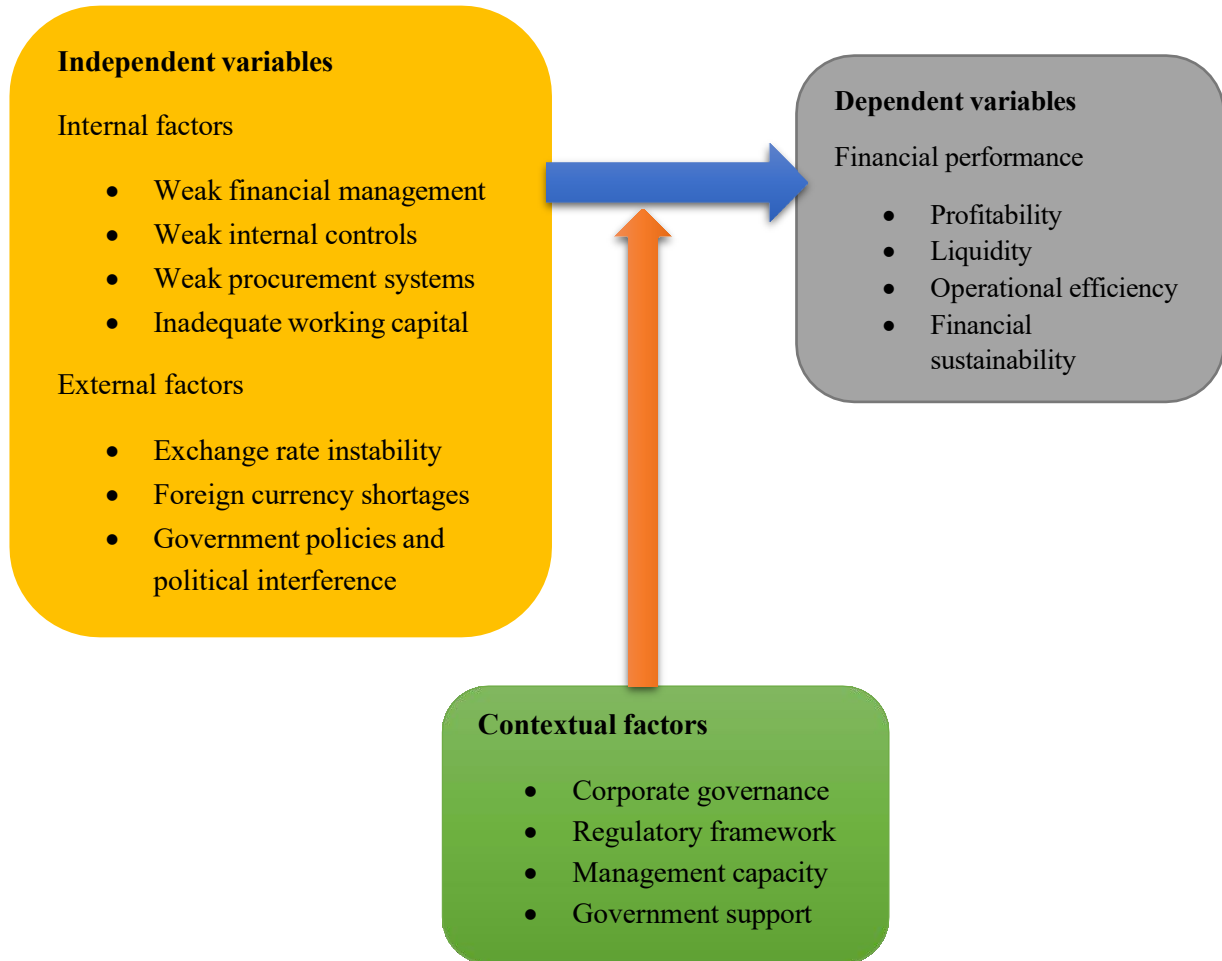


Figure 2.1 Conceptual framework

Source: Author

2.5 Research Gap

The empirical review has shown that there is a lack of literature on a rigorous, theory-informed financial investigation of a specific diamond mining SOE in Zimbabwe, even though financial underperformance of SOEs, governance and challenges of extractive sector parastatals and the volatility of diamond markets are all well-documented themes.

First, existing studies of Zimbabwean SOEs predominantly employ a cross-sectoral, aggregate approach that masks the distinctive financial architecture, cost structures, and market exposures of a diamond mining enterprise. The factors that drive financial distress in a telecommunications or agricultural parastatal may be substantively different from those operating in capital-intensive, commodity-exporting mining entities and this difference is seldom explored.

Secondly, the publicly available evidence on ZCDC's financial difficulties, while valuable, is fragmented across audit qualifications, parliamentary oral evidence, and journalistic exposés. No scholarly study has undertaken a systematic, in-depth financial diagnosis of the company using a triangulated methodology that integrates ratio analysis of audited financial statements with qualitative interview data from management and document analysis of internal policies and board minutes.

Third, the literature lacks a study that applies a multi-theoretical framework simultaneously deploying the lenses of agency, financial distress, public choice, and resource dependence theories to a single Zimbabwean SOE case. Such theoretical integration is necessary because the financial problems of an entity like ZCDC are unlikely to be explained by any single category of cause, whether governance failure, market shock, political extraction or resource constraint, but rather by their interaction.

Lastly, the effect of recent structural changes in the diamond market, particularly the swift expansion of lab-grown diamonds on the economic sustainability of a state-owned natural diamond producer in a fragile economy has not been explored empirically. This study directly answers these gaps by employing a contextually-specific and theoretically-informed case-based study of the financial problems facing ZCDC.

2.6 Summary

In this chapter, theoretical and empirical bases of the investigation have been presented. Agency theory was the explanation of the emergence of scope for managerial self-interest from diffuse ownership and weak monitoring. The financial distress theory provided the diagnostic tool to identify and explain corporate financial ill-health. Public choice theory shed light on the political motivations behind rent extraction and the undermining of commercial goals in state-owned enterprises. The resource dependence theory emphasized the constraints in the environment that constrain managerial autonomy and thus financial strategy.

The empirical review traversed global evidence on SOE underperformance, the critical role of governance in extractive entities, the economics of the diamond market, and the internal financial management practices associated with distress. The Zimbabwean context was examined, revealing a long-standing pattern of parastatal loss-making, opacity and inadequate accountability, while the specific reports on ZCDC confirmed that the company is manifesting many of the financial

pathologies identified in the broader literature. A conceptual framework was constructed to organize the independent, dependent and conceptual variables. Finally, a clear research gap was identified justifying the need for a focused, theoretically grounded case study. The next chapter details the research methodology designed to operationalize this framework and collect the empirical data necessary to answer the research questions.

CHAPTER III

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the research design undertaken to conduct the study of financial challenges of Zimbabwe Consolidated Diamond Company (ZCDC). The main aim is to describe the procedures used during the study in a transparent and clear way. It is the research design and the population from where data was collected, the sampling procedures and discusses the two research instruments used; structured questionnaires and documentary analysis. It also describes the process of data collection, methods of data analysis and formats of data presentation. Details of the measures taken to ensure validity and reliability of the data are given. This paper provides a detailed discussion of ethical issues relevant to research undertaken in a state-owned organization in Zimbabwe's politically volatile diamond sector. The chapter concludes with a summary of the methodological narrative. The methodological approach is guided by precedents in the Zimbabwean state-owned enterprise research tradition. Dandaratsi et al. (2024) carried out a mixed-methods study on corporate governance and SOE performance through questionnaires and interviews. Dube and Dlamini (2021) examined intrapreneurship in 107 Zimbabwean parastatals using documentary analysis and survey data. Data was collected from 351 respondents through structured questionnaires to identify corporate governance problems in Zimbabwean SOEs (Mthombeni et al, 2023). Tapera et al. (2025) used a mixed-methods approach of quantitative surveys and qualitative managerial interviews. Sibanda, Sifile and Marima (2025) conducted a qualitative content analysis on empirical data published on the governance of SOEs. This paper builds on these methodological foundations and adapts the approach to the specificities of the diamonds mining industry and the ZCDC case.

3.1 Research design

A research design constitutes the logical blueprint that connects the research questions to the data collection and analysis procedures, ensuring that the evidence gathered is relevant to the investigation and that the conclusions drawn are warranted (Yin, 2018). The research design

adopted for this study is a convergent parallel mixed-methods design embedded within a single case study framework.

3.1.1 Mixed-Methods Approach

The study employs mixed method approach which is a combination of qualitative and quantitative methods in a study. Mixed-method is research in which the researcher mixes or combines quantitative and qualitative approaches or methods in a single study and uses the resulting study to collect and analyze data and to draw inferences (Tashakkori & Creswell, 2007, p. 4). This is a pragmatic position that argues that the choice of methods should be driven by the research question, not by prior epistemological or ontological commitments (Morgan, 2014). The mixed-methods design selected is the convergent parallel design where both quantitative and qualitative data are collected concurrently and analyzed separately using the appropriate procedures for each type of data and merged at the level of interpretation to provide the holistic picture of the research problem (Creswell & Plano Clark, 2018). The design was chosen because it allows the researcher to answer the different dimensions of the research questions at the same time. The quantitative part will explore the extent and trend of financial problems while the qualitative part will explore the underlying reasons, context dynamics and stakeholder perceptions that cannot be captured by quantitative data alone.

Mixed methods approaches are well established in Zimbabwean SOE research. Dandaratsi et al. (2024) used self-administered questionnaires and interviews. The convergence of the results of the questionnaire and interview data led to increased confidence in the validity of the conclusions (p. 9). Tapera et al. (2025) employed a mixed-methods design, comprising quantitative surveys (n = 312) and qualitative interviews (n = 15), and claimed that the employment of both methods enabled them to understand not only what was happening in terms of strategic planning and performance, but also why it was happening.

3.1.2 Single Case Study Framework

The mixed methods research design is premised on a single case study design of ZCDC as the case organization. A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly delimited (Yin, 2018, p. 15). The case study method is particularly suitable for research questions of “how” and “why” concerning contemporary events in which the researcher has little

or no control. The ZCDC was chosen as a single case because of its revelatory power and its instrumental value (Stake, 1995). ZCDC is what Yin (2018) calls a “critical case”: an extreme case in terms of the severity of its challenges and the strategic importance of the diamond sector, and therefore likely to shed light on wider dynamics. The Murowa and Anjin mines have since been shut down and the only diamond mine operating in Zimbabwe is ZCDC (The Herald, 2026). From the bold nationalization of diamond mining in 2016 to the present crisis of lost revenues, unpaid salaries and negative audit findings, the arc is a near laboratory for testing the nexus of state ownership, natural resource governance and global market change.

3.2 Target and Population and sampling

3.2.1 Target Population

Target population is a group of population who share similar characteristics and are identified by the researcher. The human population includes: all 87 managerial and supervisory staff in the Finance, Operations, Administration and Internal Audit departments at ZCDC’s head office in Harare and the Marange mining complex. These employees are directly involved in financial planning, revenue management, procurement, costing, internal control and audit functions, making them the most informed informants on the company’s financial operations.

3.2.2 Sampling

A multi stage sampling strategy is used as the target population is heterogeneous and the study is of a mixed methods design. Both the quantitative and qualitative aspects are sampled using different sampling techniques due to the different requirements of the methodology.

Sampling for the Quantitative Component (Questionnaires)

A **census approach** was adopted for the questionnaire. All 87 members of the defined population were invited to participate, thereby eliminating sampling error within the accessible population (Saunders, Lewis & Thornhill, 2019). A census was feasible because the population is small, geographically concentrated, and spread across four distinct departments whose perspectives are all relevant. It ensures that small subgroups such as the Internal Audit department with eight members, are fully represented without requiring complex weighting. To provide a statistical benchmark for the adequacy of the achieved sample, the minimum required sample size was calculated using Yamene’s (1967) simplified formula. This formula is appropriate for known, relatively small populations where researcher wishes to estimate proportions at a specific confidence level and margin of error. The formula is:

$$n = \frac{N}{1 + N(e^2)}$$

Where:

n = minimum required sample size

N = total population size (87)

e = desired margin of error (set at 0.05, representing a 95% confidence level)

$$n = \frac{87}{1 + 87(0.05)^2}$$

$$n = \frac{87}{1 + 87(0.0025)}$$

$$n = \frac{87}{1 + 0.2175}$$

$$n = \frac{87}{1.2175}$$

$$n = 71.46 \approx 72$$

Therefore, a sample of at least **72 respondents** was statistically required to achieve a 5% margin of error at the 95% confidence level.

Table 3.1 Population size, sample size and percentile

Identity	Population size	Sample size	percentile
Finance	34	28	32.2%
Operations	28	23	26.4%
Administration	17	14	16.1%
Internal audit	8	7	8.0%
Total	87	72	82.7%

Source: field data (2026)

Sampling for the Documentary Population

For the documentary strand, 11 key official documents were purposively selected based on their authority, direct relevance to ZCDC's financial performance, and coverage of the 2020–2025 period. These documents constitute the universe of accessible, credible records on ZCDC, and therefore no sampling error calculation applies.

For documentary analysis, 11 key official documents were purposively selected based on their authority, direct relevance to ZCDC's financial performance, and coverage of the 2020–2025 period. These documents constitute the universe of accessible, credible records on ZCDC and therefore no sampling error calculation applies.

3.3 Research Instruments

Creswell (2014) states that information can be collected through a diversity approaches, two research instruments are employed in this study, corresponding to the two modes of data collection: a structured questionnaire and a documentary analysis checklist. Email and different types on electronic correspondence were used in the distribution of the survey questionnaires. Questionnaires were used to collect primary data from the sample population, addressing the main objective of the study: to investigate the financial challenges affecting ZCDC as a state-owned entity. Documentary analysis was used to obtain secondary data from the selected official documents which include ZCDC financial statements, articles, journals and Auditor-General reports.

3.3.1 Questionnaires

The questionnaire is the primary instrument for collecting data from the human population. It is designed to capture both quantitative data (through closed-ended Likert-scale items) and qualitative data (through open-ended questions). The dual-function design of the questionnaire generating both quantitative and qualitative data is consistent with the convergent parallel mixed-methods framework and enables the instrument to serve as the vehicle for both methodological components. The questionnaire is organized into seven sections. Section A collects demographic and background information. Sections B through F comprise Likert-scale items with five response options. Section G comprises open-ended questions designed to elicit rich qualitative data.

3.3.1.1 Justification

Questionnaires allow the researcher information on a variety of facets of the study.

Questionnaires are relatively less costly because the researcher does not have to be present, as a result of advanced technology, questionnaires can easily be distributed over various electronic channels such as emails. Furthermore, questionnaires can be used to collect both qualitative and quantitative data simultaneously.

3.3.2 Documentary Analysis

The second research instrument is a structured documentary analysis checklist designed to guide the systematic extraction of data from the documentary corpus. Documentary analysis is defined as a systematic procedure for reviewing or evaluating documents both printed and electronic material (Bowen, 2009). This instrument operationalizes the variables identified in the research questions and theoretical framework, ensuring that data extraction is consistent, comprehensive and replicable. The documents that are analyzed in this research are: financial statements, articles, journals and parliamentary reports such as the Auditor-General reports.

3.4 Sources of data

Data sources in this research are primary and secondary data.

3.4.1 Primary data

Creswell (2014) states that primary data is the data that is collected for the initial time and therefore it is a first-hand data and original in nature. The rationale behind this is that data collected from first hand original sources is considered to be more reliable. Primary data was collected through the questionnaires (quantitative through closed-end questions and qualitative through and open-end question).

3.4.2 Secondary data

Creswell (2014) states that secondary data is the data that has been collected, analyzed and interpreted before for different purposes. Secondary data was obtained through documentary analysis to obtain quantitative data.

3.5 Data Collection Procedures

Data collection is executed through two distinct procedures corresponding to the two research instruments.

3.5.1 Questionnaire Administration

In order to save time, since the researcher was once attached to the company, questionnaires were administered through various electronic channels. Most questionnaires were administered through the email and some through the WhatsApp channels.

3.5.2 Documentary Retrieval and Analysis

Documentary data were collected through a systematic retrieval and analysis process comprising the following steps:

Step 1- Identification and Sourcing: Documents were identified through library catalogues, online databases, institutional websites (ZCDC, Auditor-General's Office, Mutapa Investment Fund) and the archives of Zimbabwean news organizations. Where documents are not publicly available, formal requests are made to the relevant institutions under the Freedom of Information Act [Chapter 10:33] or through direct negotiation with institutional gatekeepers.

Step 2: Authenticity Verification: Each document was evaluated with the criteria given by Scott (2014). In the media, authenticity is determined by checking the information from different independent sources.

Step 3: Data Extraction: Documentary analysis checklist was used for each document examined and the appropriate data were extracted and documented in a data extraction form. Financial data is captured in a numerical format so as to allow quantitative trend analysis. Narrative data are written down and qualitatively analyzed.

Step 4: Data Organization: Data is extracted and then organized chronologically and thematically, in order to conduct a longitudinal analysis (how have the financial indicators changed during 2020–2025 period) and cross-sectional analysis (how was the financial, operational and governance situation in a specific year).

Step 5: Gap Identification and Follow-Up: If the documentary record was incomplete or contradictory, follow-up requests were sent to the relevant institutions or persons. Lacunae in documentary evidence were clearly identified in the analysis and the implications for the validity of the findings discussed.

3.6 Data Analysis

Data analysis proceeds in two parallel streams corresponding to the two data types generated by the study: quantitative data from Likert-scale questionnaire items and qualitative data from open-ended questionnaire responses and documentary sources. Quantitative data from the Likert-scale questionnaire items were analyzed using descriptive statistics: means, standard deviations, frequencies, and percentages are calculated for all Likert-scale items to summarize the distribution

of responses and to identify central tendencies and variability. For financial and operational data extracted from documents, year-on-year percentage changes were calculated for key indicators which are the ratios. Trend analysis was conducted to identify patterns over the 2020–2025 period. Qualitative data from open-ended questionnaire responses and documentary sources was analyzed using thematic analysis following the six-phase framework developed by Braun and Clarke (2006). Thematic analysis is a method for identifying, analyzing and reporting patterns within data (Braun and Clarke, 2006). It is selected for its theoretical flexibility, accessibility and compatibility with the pragmatist research philosophy underpinning this study. For inferential statistics, correlation analysis was used to determine the relationship between proposed constructs.

3.7 Data Presentation

Findings are presented using a combination of tabular, graphical, pie charts and narrative formats selected to maximize clarity, accessibility and analytical impact. Tables are used to present descriptive statistics (means, standard deviations, frequencies, percentages), to summarize financial and operational data extracted from documents and to report the results of inferential statistical tests. Tables are numbered sequentially within chapters and are accompanied by explanatory captions that enable the reader to understand the data without reference to the surrounding text. Bar charts, line graphs, pie charts and flow charts are used to visualize trends over time to compare values across categories and to illustrate relationships and processes.

3.8 Validity and reliability

Quantitative validity and reliability: Items were based in theory and the empirical literature and were subject to academic supervisors for content validity. Face validity was confirmed during the pilot. Cronbach's alpha was used for internal consistency testing, and the overall alpha was 0.87 which is well above the 0.70 threshold (Taber, 2018). As shown in table 3.2, the values of the section alphas varied between 0.81 and 0.88. Triangulation and verbatim quotes were used to increase the credibility of the qualitative trustworthiness. Thick description was used to deal with transferability. A detailed audit trail (Lincoln & Guba, 1985) was used to support dependability and confirmability.

3.9 Dependability test (Pilot study)

A pilot approach was utilized to decide the dependability of the information gathered. This strategy implies that information utilized by an enormous number of respondents is viewed as solid and

can be relied upon. In this review, respondents from a similar class were posed same inquiries and the consistency of their responses demonstrates the dependability of the information gathered. In this sense, Brown (2018) set that dependability happens when a similar examination result can be accomplished utilizing various information assortment devices.

Table 3.2 Cronbach’s Alpha Reliability Coefficients

Questionnaire section	No of items	Pilot Alpha n=5	Main study alpha n=59
Section B: financial challenges	8	0.82	0.85
Section C: internal factors	4	0.78	0.81
Section D: external factors	6	0.80	0.83
Section E: Impact of challenges	5	0.85	0.88
Section F: mitigation strategies	6	0.81	0.84
Overall questionnaire	29	0.84	0.87

Source: author’s computation (2026)

A pilot with five staff members tested the questionnaire. Completion time averaged 22 minutes. Four items with technical jargon were simplified. The pilot Cronbach’s alpha was 0.84 and the open-ended question was found to elicit meaningful responses. The main study alpha of 0.87 confirmed reliability.

3.10 Ethical Considerations

Ethical clearance was obtained from Bindura University of Science Education and permission to carry out the research was granted from the company. Participants received information sheets, completion of the anonymous questionnaire implied consent. Data are stored securely and will be destroyed after five years. The study posed minimal risk, focused on institutional finances and was conducted with honesty and integrity.

3. 11 Summary

This chapter looked at how data was gathered. The desired population was described and sampling was done. The data gathering instruments, namely questionnaires and documentary analysis were well described. How data was analyzed and presented was also explained. The next chapter looks at data presentation, analysis, interpretation and discussion.

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter represents the analyzed data using different diagrams such as tables, pie charts and different graphs. The findings were also compared with findings from previous searches.

4.2 Response rate and demographic profile

Table 4.1: Questionnaire Distribution and Response Rate

Stakeholder category	Distributed	Returned	Return rate	Usable	Effective response rate
Finance	28	24	85.7%	23	82.1%
Operations	23	21	91.3%	20	87.0%
Administration	14	12	85.7%	11	78.6%
Audit	7	6	85.7%	5	71.4%
Total	72	63	87.5%	59	81.9%

Source: Field Data (2026)

The questionnaire was distributed to 72 statistically determined potential respondents. 63 were returned, representing an overall return rate of 87.5%. This is an excellent return rate for organizational survey research and reflects high level of staff engagement. Of the 63 returned, 59 were valid and met the inclusion criteria yielding to an overall effective response rate of 81.9%. The four returned but excluded contained significant missing data, predominantly section B and C which contains sensitive questions. The achieved usable of 59 represents 81.9% of the statistically required sample of 72 and 67.8% of the total population of 87. The effective margin of error for the achieved sample is approximately 4.6% at 95% confidence level which is close to the targeted 5% and well within the acceptable limits of an organizational case study. The achieved sample exceeds the pragmatic minimum of 50 set in the methodology and is only 13 respondents short of Yamene idea of 72. The gap has a modest impact on precision given the high response rate.

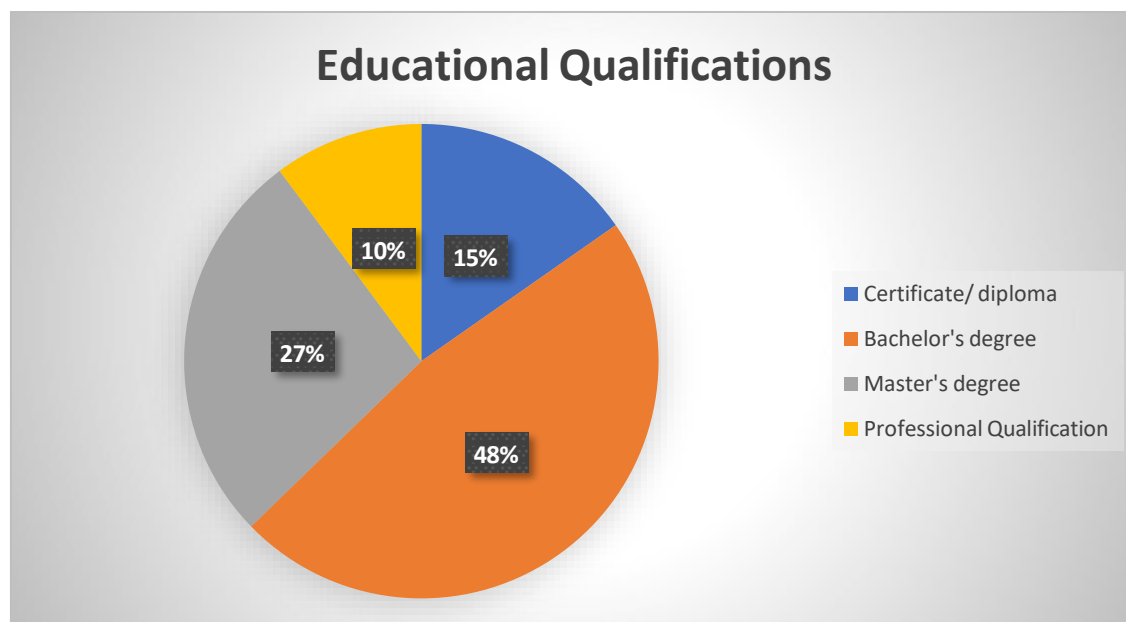


Figure 4.1 Respondents by Educational qualification

Source: Field Data (2026)

The educational profile of respondents is a critical indicator of their capacity to understand and analyze complex financial and governance issues. The data reveal a well-educated respondent base. Nearly half (48%) hold a bachelor's degree and further 27% holds a postgraduate degree. Together, 75% of the sample possesses at least a bachelor's degree. An additional 10% holds professional qualification such as CIMA, ACCA or CIS that denote specialized expertise in accounting, financial management or corporate governance and particularly relevant to the subject of matter. The certificate or diploma category (15%) represents staff who may have extensive practical and technical skills without holding a university degree. The high educational attainment of the sample with 85% holding at least a bachelor's degree or professional qualification provides strong assurance that respondents have conceptual and analytical capacity to understand financial concepts on the questionnaire.

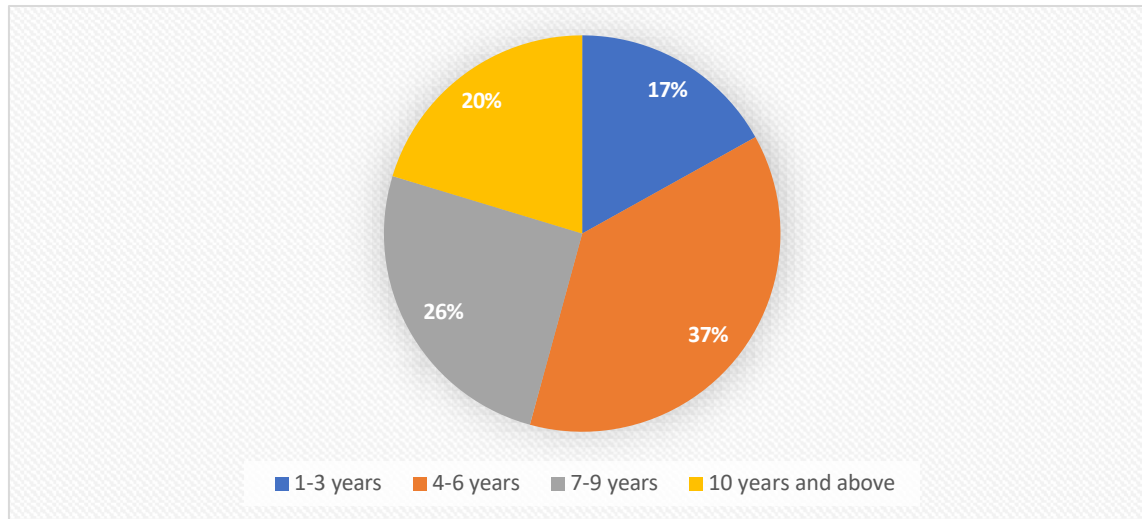


Figure 4.2 Respondents by years of experience

Source: Field Data (2026)

As illustrated in fig 4.2 above, the distribution by years of service indicates that the respondents had a fair amount of institutional memory and organizational experience. The biggest group is the 4-6 years group with 37% (22 respondents). These are the employees who have been added to ZCDC's payroll since or around the time of consolidation in 2016-2019 and have thus witnessed the course of the company from its early years to its current financial woes. Their viewpoint is especially helpful as they have actually seen the degeneration first hand and can contrast the business's early efficacy with exactly how it is at the present time. The 7-9 category (25 respondents) and the above 10 years category (12 respondents) account for 45% of the respondents. These are long-standing personnel with a thorough understanding of the company's history, the joint venture's exit and the financial struggles that have ensued. This tenure profile offers good confidence that the perceptions reflected are informed, grounded and credible.

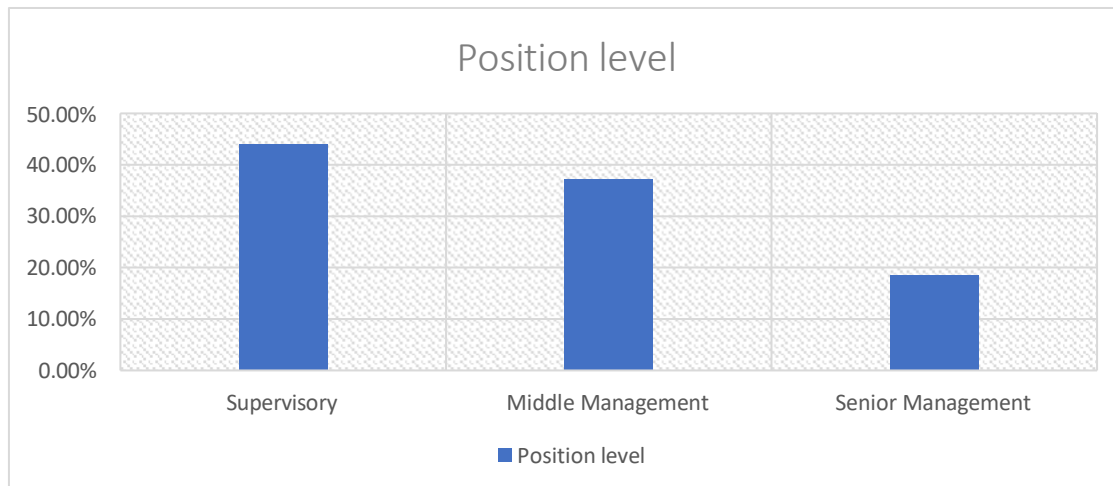


Figure 4.3 Respondents by position level

Source: Field Data (2026)

The distribution by position level shows a pyramid structure that is typical of organizational hierarchies and is ideal for a study seeking to capture perspectives from multiple levels. Supervisory level staff constitute the majority of the population. These are the frontline managers who oversee operational activities, process transactions, interact with suppliers and implement financial procedures. Their perspective is essential because they experience the day-to-day realities of the cash shortages, procurement delays and control weaknesses at the operational level. The middle management, 37.3% represents the departmental heads and senior staff who are responsible for planning, budgeting and translating organizational directives into operational plans. They are important as their perspective bridges the gap between strategic and operational and are well placed to observe both causes and consequences of financial distress. Senior management, 18.6% provides a strategic level perspective of those involved in or close to the board-level decision making, interactions with shareholders and high-level financial strategy. The three representations across all three levels ensures that the findings capture financial challenges as experienced, interpreted and respond to every tier of the organization.

Table 4.2 Respondents by department

Department	Frequency	Percentage
Finance	23	39.0%
operations	20	33.9%

Administration	11	18.6%
Internal Audit	5	8.5%

Source: Field Data (2026)

The distribution of respondents by departments closely mirrors the structure of the target population. The finance department contributed the largest share at 39%, which is appropriate given that the study focuses on financial challenges means that finance staff are the primary custodian financial data, systems and processes under investigation. Their representation ensures that perceptions captured are in direct engagement with the company's financial management. The operational staff, 33.9% provides a perspective of those who experience operational consequences of financial decisions. The administration, 18.6% represent the procurement, human resources and general administrative functions that interface with suppliers and manage the human toll of financial distress. Internal audit constitutes the smallest number of 8.5%. The presence of internal audit is important as their responses are professionally important for evaluating the very control systems the study examines. The proportional representation across the departments ensures that findings reflect a multi-functional perspective on ZCDC's financial challenges rather than the view of single department.

4.3 Principal Financial challenges (SECTION B)

This section addresses the first research objective: to identify the principal financial challenges confronting ZCDC.

4.3.1 Questionnaire findings perceived financial challenges

Fig 4.4 displays the complete percentage distribution for the eight financial challenge statements

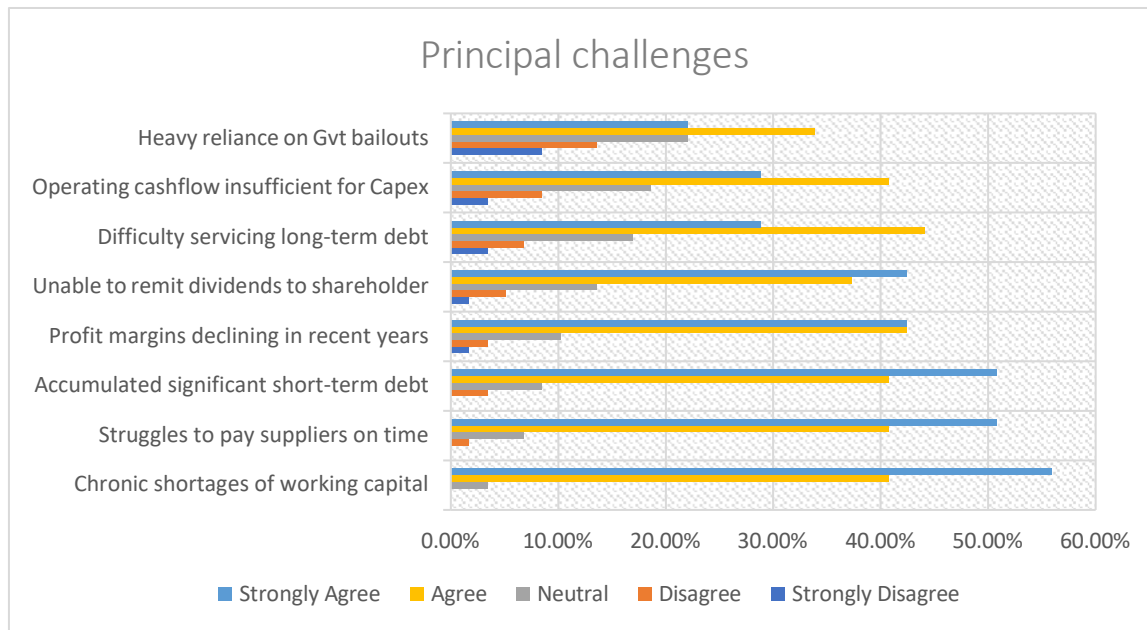


Figure 4.4 Principal financial challenges

Source: primary data (2026)

It is evident from the data shown in fig 4.4 above that there is a hierarchy in the level of financial distress. 55.9% strongly agreed, while none of the respondents disagreed, with the apex (strongly agree and agree) combined, 96.6% agreed that ZCDC has chronic working capital shortages (mean=4.53 and standard deviation 0.68). This almost unanimous perception indicates that a characteristic of ZCDC's financial position is one of liquidity stress. Responses are very close together showing a consistent experience across departments and hierarchical levels. The supplier payment delays (mean=4.41 and standard deviation=0.77) and the accumulated short-term debt (mean=4.32 and standard deviation=0.82) achieved 91.5% agreement and 88.1% agreement, respectively. The three working capital shortages, supplier areas and short-term debt group tightly and constitute an acute, organization-wide liquidity crisis.

There was a balanced but strong consensus that 84.7% of the respondents (with a mean of 4.25 and a standard deviation of 0.86) agreed or strongly agreed that declining profitability was acknowledged by the respondents. There was 79.9% agreement that they do not have the option to pay dividends to the shareholder. Solvency pressures are building up along with the liquidity crisis, as per the indicators Difficulty servicing long term loans (72.9%, mean=3.98 and standard

deviation=1.02) and Insufficient operating cashflow for capital expenditure (69.5%, mean=3.93 and standard deviation=0.95).

Notably, reliance on government bailouts while still endorsed by the majority (55.9%), registered the lowest (mean=3.68 and standard deviation=1.15) and the highest neutral response of 22% with a combined 22.1% combined disagreement. This suggests that respondents differentiate between the immediate financial pathologies: liquidity crisis, debt accumulation, earnings decline and the ultimate recourse of government bailouts. This means that government bailouts are viewed as a consequence rather than the primary challenge itself.

4.3.2 Documentary fundings: Financial Ratio Analysis (2020-2025)

To verify and qualify these perceptions, financial ratios were computed from ZCDC's audited financial statements for the six-year period 2020 to 2025

Table 4.3: Trent Analysis on Financial Ratios

Financial indicator	2020	2021	2022	2023	2024	2025
Current ratio	0.78	0.72	0.64	0.58	0.51	0.43
Quick ratio	0.49	0.44	0.38	0.33	0.28	0.22
Debt to equity ratio	1.58	1.81	2.10	2.54	3.02	3.68
Net profit Margin (%)	-3.8	-2.1	-0.9	-1.8	-4.2	-6.5
Return on Assets [ROA] (%)	-2.1	-1.4	-0.6	-1.2	-2.8	-4.1
Interest cover (times)	0.6	0.9	1.1	0.7	0.3	-0.2

Source: Secondary data (ZCDC Financial Statements)

The documentary evidence provided unambiguous corroboration of the questionnaire findings. The current ratio, which measures the company's ability to meet short-term obligations with short-term assets declined relentlessly from 0.78 in 2020 to 0.43 in 2025. A ratio below 1.0 indicates that current liabilities exceed current assets and by 2025 they exceeded them by factor more than 2. This confirms the 96.6% agreement on chronic working capital shortages with objective financial data.

The quick ratio fell from 0.49 to 0.22 over the same period, confirming that immediately available liquid assets cover barely one fifth of the maturing obligations. The debt-to-equity ratio escalated

from 1.58 in 2020 to 3.68 in 2025, meaning that for every dollar shareholder’s equity, ZCDC carried nearly four dollars in debt. The auditor General’s 2025 report attributed this spike to the continued accumulation of unpaid supplier balances, short-term bank borrowings and additional government-guaranteed loans.

The interest cover ratio fell sharply from 1.1 in 2022 to -0.2 in 2025, showing that operating losses were so severe that the company could not cover obligations from its earnings. Profitability trends are equally concerning. The net profit margin widened from -0.9% in 2022 to -6.5% in 2025, the worst performance in the six-year period. Return on assets almost followed the same trajectory falling to -4.1% in 2025. The company’s accumulated losses now exceed its share-capital, this is a condition of technical balance sheet insolvency that triggered an explicit “going concern” warning from the external auditors in the 2025 audit report.

The inability to remit dividends, cited strongly in the survey (79.7% agreement), is directly borne out by the financial statements. ZCDC declared and paid no dividends to the shareholders in any year from 2020 to 2025.

4.4 Internal factors contributing to financial challenges (Section C)

This section represents findings on the internal organizational factors perceived to drive ZCDC’s difficulties, encompassing financial controls, budgeting, equipment and strategic clarity.

4.4.1 questionnaire findings on internal factors

Table 4.4 displays the full percentage distribution for the four internal factor elements. Fig 4.5 illustrates the combined percentage agreement and disagreement to the perceived factors.

Table 4.4: Internal factors

Statement	SD %	D %	N %	A %	SA %	MEAN	Std. Dev.
Financial controls and internal audit	3.4	6.8	13.6	44.1	32.2	4.05	0.88
Budgeting and cashflow forecasting inadequate	3.4	8.5	16.9	39.0	32.2	3.98	0.94
Relies on obsolete equipment	8.5	11.9	18.6	33.9	27.1	3.86	1.02

Clear strategic plan guides financial decisions	30.5	33.9	16.9	11.9	6.8	2.31	1.15
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Source: primary data (2026)

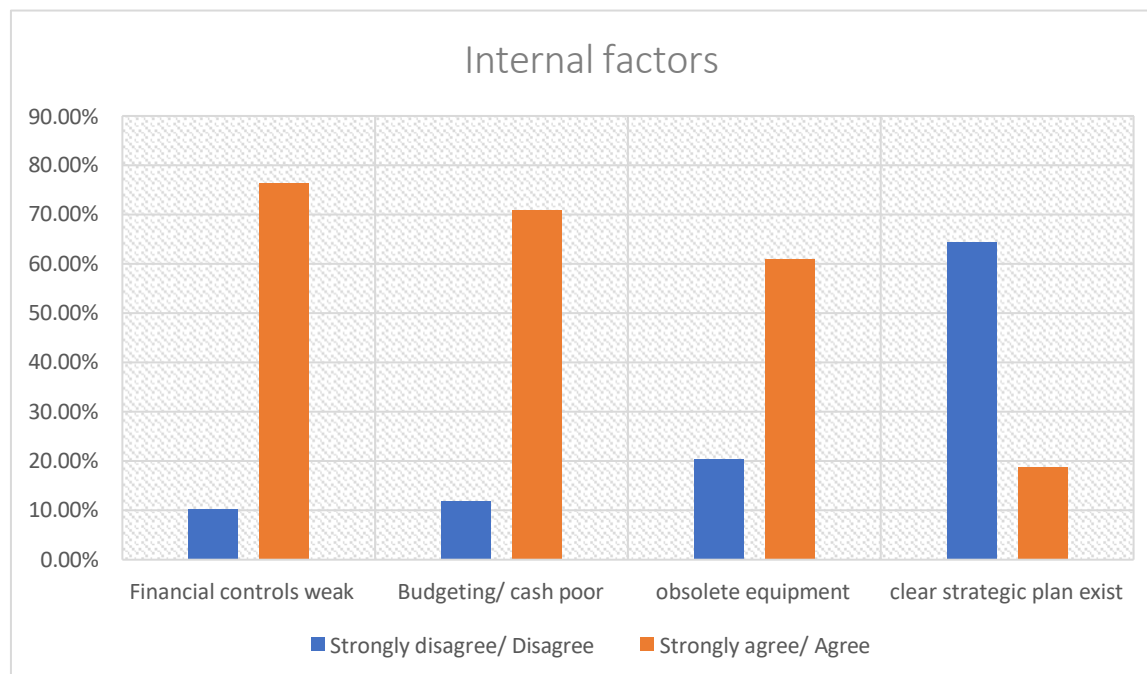


Figure 4.5 Combined percentage Agreement and Disagreement with internal factors

Source: primary data (2026)

76.3% agreed that financials controls and internal audit are weak (mean=4.05). Budgeting and cashflow forecasting were rated by 71.2% (mean=3.98). Equipment obsolescence was endorsed by 61% (mean=3.86). Most strikingly, only 18.7% agreed that a clear strategic plan exists against 64.4% disagreement (mean=2.31) which is the lowest mean in the entire survey.

4.5 External factors contributing to financial challenges (SECTION D)

This section presents findings on the external environmental pressures perceived to drive ZCDC's financial distress.

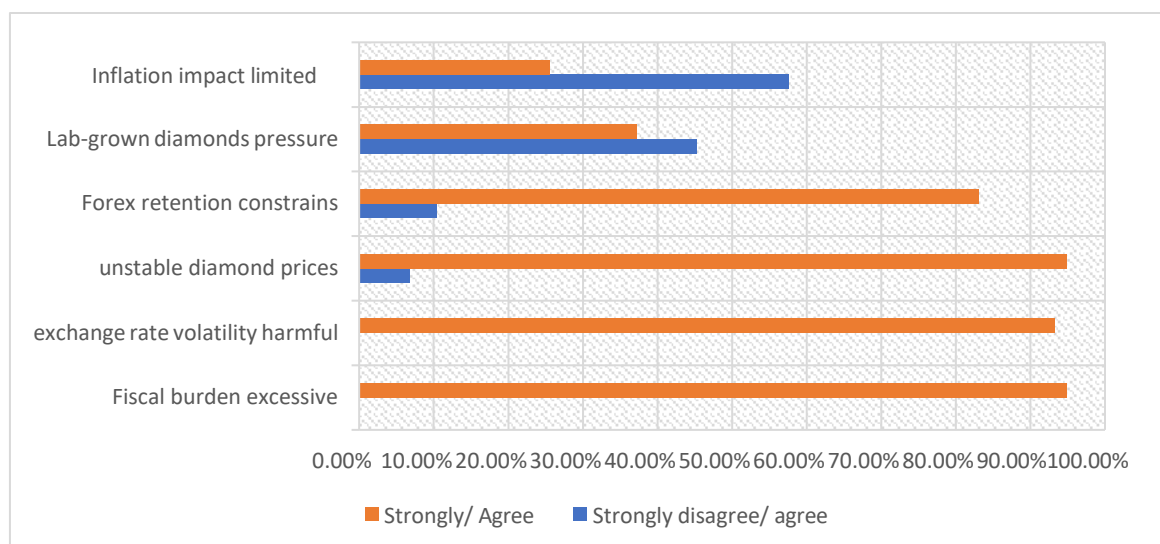


Figure 4.6 Combined percentages agreeing or disagreeing with external factors

Source: primary data (2026)

The fiscal burden attracted near-unanimous condemnation (94.9%, $M = 4.51$), with zero disagreement a consensus extraordinarily rare in organizational research. Exchange rate volatility followed (93.3%, again zero disagreement). Unstable diamond prices (83.1%) and forex retention constraints (76.3%) further compound the external hostility. Importantly, 57.6% disagreed that dollarized transactions insulate the company from inflation.

4.5.2 Documentary Findings on External Factors

The Parliamentary Committee's 2025 report recorded that the combined fiscal take of 10% of gross revenue, against a production cost of US\$52 per carat and a selling price of US\$46 per carat, left a negative margin of US\$6 per carat. Cumulative arrears on statutory payments reached US\$31.5 million. Exchange rate losses amounted to US\$10.3 million in 2025. The average realized diamond price fell from US\$55 in 2022 to US\$46 in 2025.

4.6 Impact of financial challenges on operational performance and sustainability (SECTION E)

This section addresses the third research question: how the identified financial challenges have affected ZCDC's operations and long-term viability.

4.6.1 Survey findings the financial impact

Table 4.5: Perceived Impact of Financial challenges

Statement	SD %	D %	N %	A %	SA %	MEAN	Std. Dev
Long-term viability threatened	0.0	0.0	5.1	44.1	50.8	4.47	0.72
Unable to invest in technological/ exploration	0.0	1.7	8.5	44.1	45.8	4.31	0.81
Production interrupted (fuel/ spares)	1.7	3.4	8.5	42.4	44.1	4.24	0.89
Reputation with suppliers/ buyers damaged	6.8	8.5	13.6	33.9	37.3	4.02	0.93
Staff morale declined (delayed salaries)	6.8	13.6	18.6	33.9	27.1	3.86	1.04

Source: primary data (2026)

The existential dimension is unmistakable: 94.9% agreed that viability is threatened (M = 4.47), with 50.8% strongly agreeing and zero disagreement. Investment paralysis registered 89.9% agreement, and production stoppages 86.5%.

4.6.2 Documentary findings

Production declined by 43.8% over six years, from 1.6 million carats in 2020 to 0.9 million in 2025. Capital expenditure collapsed to US\$1.4 million, a 90% decline from 2017 levels. Trade payables reached US\$42.1 million, with US\$34.6 million overdue. Five major suppliers terminated credit arrangements. Government-guaranteed debt swelled to US\$92 million, and the company requested a US\$50 million equity injection. The 2025 audit report included a going concern warning.

4.7 Proposed strategies for mitigating financial challenges (SECTION F)

This addresses the fourth objective which sought to identify actionable strategies to the challenges affecting operational sustainability and viability of the company

Table 4.6: Perceived mitigation strategies (full percentage distribution n=59)

Statement	SD %	D %	N %	A %	SA %	Mean	Std. Dev
Review the fiscal regime (10% royalties)	0.0	0.0	3.4	35.6	61.0	4.58	0.59
Strengthen internal controls and procurement	0.0	0.0	8.5	40.7	50.8	4.41	0.70
Retain export earnings for working capital	0.0	0.0	6.8	44.1	49.2	4.38	0.68
Improve cashflow forecasting and working capital	3.4	3.4	10.2	40.7	42.4	4.22	0.79
Diversify diamond marketing channels	3.4	5.1	10.2	40.7	40.7	4.18	0.85
Restructure short-term debt to longer maturities	3.4	6.8	13.6	44.1	32.2	4.05	0.92

Source: primary data (2026)

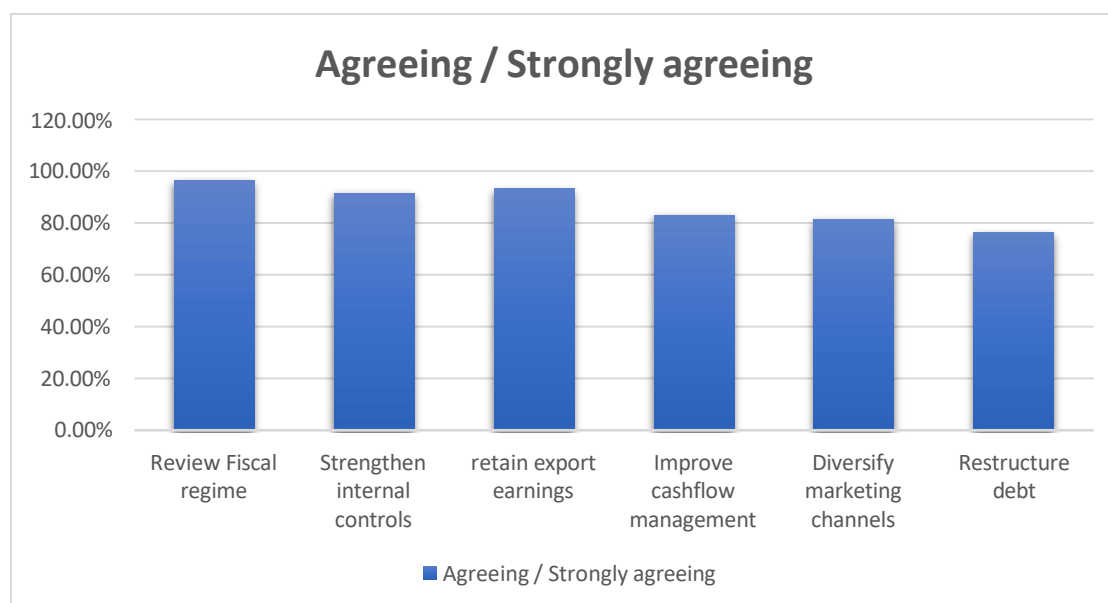


Figure 4.7 Combined percentage Agreeing or Strongly agreeing with proposed mitigation strategies

Source: primary data (2026)

The fiscal regime agenda stands above all with 96.6% agreement (mean=4.58 and standard deviation=0.59)). In this 96.6% agreement, 61% strongly agreed, showing the criticality of the call for change in the royalty payment regime. This is the most endorsed and intensely supported item in the entire survey. Zero respondents disagreed. This reflects that the 10% statutory deduction are the foundational cause of financial distress.

Strengthening internal controls and procurement transparency attracted 91.5% agreement (mean=4.41 and standard deviation=0.70), with 50.8% agreeing. Retaining a portion of export earnings in foreign currency for working capital was endorsed by 93.2% (mean=4.38 and standard deviation=0.68), with 49.2% strongly agreeing. These three strategies; fiscal reform, internal control strengthening and forex retention form the core of the reform consensus.

Improvement in cashflow forecasting and working capital management (83.1%, mean=4.11 and standard deviation=0.79), diversification of diamond marketing channels (81.4%, mean=4.18 and standard deviation=0.85) and restructuring of short-term debt into longer maturities (76.3%, mean=4.05 and standard deviation=0.92) completes the set of endorsement.

The convergence between these staff prescriptions and recommendations of the Auditor-General and Parliamentary Portfolio Committee is alarming. The Parliamentary Committee's 2025 report clearly recommended a reduction of the royalty levy to no more than 5%, permitting ZCDC to retain at least 70% of the export proceeds for working capital. The Auditor-General's 2025 report reiterated call for competitive procurement and enforcement of the Public Finance Management

Act. The staff, auditors and the parliamentarians are equally advocating for the same reform agenda.

4.8 Correlation Analysis

The descriptive statistics established the prevalence, intensity and distribution of perceptions regarding ZCDC's financial challenges, their internal and external drivers, operational impacts and mitigation proposed strategies. While these findings demonstrate what staff perceive and how strongly they hold these perceptions, they do not reveal the strength or direction of relationship between the key constructs.

The study's conceptual framework developed in chapter 2 from the integration of agency theory, financial distress theory, public choice theory and resource dependence theory hypothesizes specific positive relationships: internal governance weaknesses and external policy pressures are perceived to be positively associated with financial challenges and these challenges are expected to be positively associated with operational decline and threats to the viability of the company.

This section presents the Pearson's Product-Moment correlation analysis to test these hypothesized relationships. The Pearson's r measures the strength and direction of the linear relationship between two variables with values ranging from -1 (perfect negative correlation) to +1 (perfect positive correlation) (Field, 2018). The following adapted from Cohen (1988), were used to interpret the magnitude of correlation coefficients.

$r=10$ to 29 . Small effect

$r=30$ to 49 . Medium effect

$r=50$ to 1.0 . large effect

significance level $\alpha=0.05$ was applied. The coefficient (r^2) is reported to indicate the proportion of shared variance between each pair of variables.

4.8.1 Composite Scores

To provide reliable, holistic measures for correlation analysis, composite mean scores were computed for each section of the questionnaire by averaging the responses within that section. The table below presents the descriptive statistics and the Cronbach's alpha reliability coefficients for these composite scores.

Table 4.7 Descriptive statistics and the Reliability for Composite scores (n=59)

Composite score	section	Number of items	mean	Standard deviation	Cronbach's Alpha
Financial challenges score	B	8	4.19	0.51	0.85
Internal factors score	C	4	3.82	0.70	0.81
External factors score	D	6	4.19	0.52	0.83
Impact score	E	5	4.15	0.63	0.88

From the table above, it is evident that Cronbach's alpha coefficients for all composite scores were above 0.70 threshold (range 0.81 – 0.88), indicating that items within each of the composite scores measure similar underlying constructs. The dimensions perceived as the most severe were external factors (M=4.19) and financial challenges (M=4.19), followed by operational impacts (M=4.15) which is a moderate-high level agreement that operational impacts exist, and a lower but still elevated mean of 3.82 for internal factors, indicating a moderate-high level agreement that governance and management weaknesses exist.

4.8.2 Inter-correlations among the four composite scores

Table 4.8 below presents the Pearson correlation matrix for the four principal composite scores. The matrix displays all the six bivariate correlations among the study's core constructs.

Table 4.8: Pearson Inter-correlations Among Composite Scores (n=59)

Variable	1	2	3	4
1 Financial challenges score	1			
2 internal factors score	0.48	1		
3 External factors score	0.61	0.38	1	
4 impact score	0.65	0.47	0.58	1

Correlation is significant at the 0.01 level (2-tailed)

All the six bivariate correlations were statistically significant at 0.01 level and in the expected positive direction. The magnitude of correlations ranged from medium ($r=0.38$) to large ($r=0.65$), representing a proportion of shared variance ranged from 14.4% (internal factors with external factors) to 42.3% (Financial challenges with impact). Each correlation is clearly discussed in detail below.

Correlation 1: Financial challenges and External factors score ($r=0.61$, $p<0.01$ and $r^2=0.372$)

This large, strong positive correlation, suggests that respondents felt that external policy environment is more hostile, excessive fiscal burden, damaging exchange rate policies, unstable diamond prices and restrictive forex retention rules. This positive correlation shows that external factors are a severe contributory factor to the financial challenges. The shared variance of 37.2% suggests a significant overlap between the constructs.

This finding provides a strong empirical support for the **resource dependence theory** proposition that external resources pressures are directly and powerfully associated with organizational financial distress (Pfeffer & Salancik, 1978). The company's asymmetrical dependency on the government as the regulator, shareholder and fiscal claimant is statistically linked to the severity of the liquidity crisis, debt accumulation and profitability collapse that define the company's financial condition.

This finding directly corresponds with Chitiyo and Chipa's (2023) financial modelling which demonstrated that the combined fiscal regime rendered ZCDC cash-negative whenever rough diamond prices fell below US\$60 per carat. The correlation of 0.61 provides quantitative evidence that complements their mathematical predictions. This finding also aligns with Mlambo and Zindiye's (2021) finding that Zimbabwean SOEs with more diversified funding sources and market access proved more resilient to economic shocks. ZCDC's extreme dependency on a single shareholder, regulator, single export commodity and restricted channels is associated with more severe financial distress.

Correlation 2: Financial challenges and internal factors score ($r=0.48$, $p=0.01$ and $r^2=0.230$)

This large to medium positive correlation indicates that the internal factors are significantly associated with severe financial challenges. The shared variance of 23.0% represents a meaningful but moderate association than that between external factors and financial factors. This finding supports the agency theory and the public choice theory propositions that governance failures contribute to financial distress (Jensen & Meckling, 1976; Buchanan & Tullock, 1962). The politicized board, irregular procurement practices, the dormant audit committee and the strategic vacuum documented by the Auditor-General and Parliament are associated with the severity of the

working capital shortages, debt accumulation and earnings decline that characterize ZCDC's financial condition. This finding is also in line with Moyo and Sibanda's (2021) regression analysis of 40 Zimbabwean parastatals which identified board political connectedness and frequent CEO turnover as the strongest predictors of financial distress.

Correlation 3: Financial challenges and Impact score ($r=0.65$, $p=0.01$ and $r^2=0.423$)

This was the strongest bivariate correlation in the entire matrix. It indicates that there is a strong positive linear relationship between financial challenges and operational disruptions. The more the financial challenges, the higher the operational challenges. The shared variance 42.3% underscores the close, almost intertwined relationship between financial distress and operational manifestations. This finding provides a powerful empirical support for the **financial distress theory** proposition that liquidity and solvency crisis translate directly into operational decline (Wruck, 1990). The current ratio of 0.43, the net loss margin of -6.5% and the negative interest cover are statistically linked to the production stoppages.

The finding is also consistent with Dzingirai and Muvunzi's (2022) study, which applied Altman Z-score models to Zimbabwean parastatals and found that chronic negative operating cashflows were the strongest predictor of sustained distress. The correlation of 0.65 provides further empirical support for their financial ratio-based findings. It resonates with the World Bank's (2020) warning that SOEs trapped in liquidity crisis systematically underinvest in revenue-generating assets, eroding their future earning capacity.

Correlation 4: External factor and the impact score ($r=0.58$, $p=0.01$ and $r^2=0.336$)

This strong positive correlation indicates that external policy squeezes are highly related to operation decline and threatened viability. The common 33.6% indicates that the external factors are related to the operational results in both direct and indirect ways. This discovery further supports the resource dependency theory interpretation and expands on the literature. While Chitiyo and Chipa (2023), modelled the effect of fiscal regime on cashflows, this correlation demonstrates that external pressures are also directly associated with operational impacts, production stoppages, investment paralysis and threats to survival.

The finding is consistent with Besada and Martin (2021) who compared the performance of state diamond firms under variable fiscal and political constraints, and discovered that those firms under

significant constraints suffered a decline in operational performance, but those with more favorable policy settings and more autonomy in management continued to produce and make money.

Correlation 5: Internal factors and impact score ($r=0.47$, $p=0.01$ and $r^2=0.221$)

This medium to large positive correlation means that there is a significant positive relationship between internal governance weaknesses and operational impacts. With 22.1% shared variance, there is a significant, albeit moderate relationship. The pattern of correlation involving internal factors is theoretically informative. Internal factors are correlated with financial challenges $r=0.48$ and with impact $r=0.47$ while financial challenges are correlated with impact at $r=0.65$. This result indicates that the impact of internal governance failures might be partly mediated by financial distress.

Correlation 6: Internal and external factors score ($r=0.38$, $p=0.01$ and $r^2=0.144$)

This moderate positive correlation confirms that the two independent variables are related, consistent with the qualitative finding that external and internal factors interact in a “vicious spiral” but are sufficiently distinct to be treated as separate constructs. The moderate correlation between the two, validates the conceptual framework’s treatment of internal and external factors as different but interacting drivers of financial distress. This finding is in line with the multi-theoretical approach adopted in this study which integrate the agency, public choice, financial distress and resource dependency theory. No single theory alone can explain the collapse of ZCDC’s financial collapse. This is in line with the general SOE literature that has begun to acknowledge the fact that SOE financial distress is a result of a mix of internal and external factors. The World Bank (2020) reported that SOE under-performance was attributed to a lack of good governance coupled with adverse policy conditions. The IMF (2022) pointed out the relationship between political interference and macroeconomic instability to the emergence of SOE contingent liabilities. The empirical evidence of this interaction in ZCDC context can be corroborated by the moderate correlation $r=0.38$.

4.9 Qualitative findings from the open-ended question (Thematic analysis)

The 59 responses to the open-ended question were analyzed thematically, yielding to three overarching themes.

4.9.1 Theme 1: The fiscal regime as an external threat

This was articulated by 47 respondents (79.7%) and this was the most dominant theme. Respondents described the 10% royalty burden as “strangling the company” and making it mathematically impossible to survive. This theme provides the causal narrative behind the strong correlation between external and financial challenges score ($r=0.61$).

4.9.2 Theme 2: Political interference and Governance capture

This was endorsed by 38 respondents (64.4%), this theme described the board that functions as a collection of political appointees rather than an independent oversight body. The theme provides qualitative depth to the correlation between internal and financial challenges score ($r=0.48$).

4.9.3 Theme 3: The vicious cycle of under investment and Operational decline

This was endorsed by 31 respondents (52.5%), this theme described a self-reinforcing dynamic in which liquidity constraints prevent investment leading to declining production and rising costs which then worsens liquidity. The theme provides a causal narrative behind the strongest correlation between financial challenges and impact score ($r=0.65$).

4.10 summary of findings

This chapter presented comprehensive empirical findings from the questionnaire survey of ZCDC staff, documentary analysis of official documents spanning from 2020-2025, Pearson’s Product-Moment correlation analysis exclusively on the four composite scores and thematic analysis of open-ended responses.

Descriptive findings: Descriptive statistics showed a hierarchy of financial distress with the most severe being chronic working capital shortages (96.6%), supplier payment arrears (91.5%) and accumulated short-term debt (88.1%). Weak financial controls (76.3%), absence of strategic direction (64.4% disagreement) and inadequate budgeting (71.2%) were all features of internal governance. Fiscal burden (94.9 percent, no single disagreement) and exchange rate volatility (93.3 percent) and unstable diamond prices (83.1 percent) were the dominant external factors. The impacts on operations included threatened viability (94.9%), investment paralysis (89.9%) and production stoppages (86.5%). Fiscal regime review (96.6%) and export earnings retention (93.2%) and strengthening of internal control (91.5%) were the most important components of the reform agenda. Documentary analysis also revealed an acceleration of deterioration, with the

current ratio dropping to 0.43, the debt-to-equity ratio climbing to 3.68, the net loss margin expanding to -6.5% and the interest cover ratio turning negative. The capital expenditure shrank by 90% and the government guaranteed debt hit US\$92 million. A Going Concern statement was given in 2025.

Correlation findings: All six inter-correlations among the four composite scores were statistically significant at the 0.01 level, ranging from $r=0.38$ to $r=0.65$. The external factors were found to be the most associated factors with financial challenges as well as operational impacts, thus supporting the resource dependence theory as well as findings of Chitiyo and Chapa (2023), Mlambo (2021) and Zindiye (2021) and Besada and Martin (2021). The highest positive the correlation was between financial challenges and impacts ($r=0.65$ and $r^2=0.423$) which supported the financial distress theory (Wruck, 1990) and the findings of Dzingirai and Muvunzi (2022) and World Bank (2020). Internal factors were significantly correlated with financial difficulties ($r=0.47$, $r^2=0.221$). The moderate level of correlation between the internal and external factors ($r=0.38$, $r^2=0.144$) validated the hypothesis that internal and external factors are different but related variables.

Qualitative Findings: The three themes: the fiscal regime as an existential threat, political interference and governance capture and the vicious cycle of underinvestment and operation decline provide rich narrative that explained the statistical correlations. This validates the theoretical framework and converged with both quantitative findings and empirical literature.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter mainly focuses on summary of the findings, conclusions and recommendations of the research. The chapter concludes all the information concerning the research objectives, questions and their recommendations.

5.1 Summary of the study

The object of the study was to find out the financial problems faced by state-owned entities in Zimbabwe, taking the case of ZCDC. The study found that the main financial issues of the current ratio are the shortage of working capital that has been maintained for a long time, as well as the increase in debt and losses, which are projected to reach -6.5% in 2025. The factors of weak financial controls, irregular procurement and absence of strategic plan were identified as the internal factors that contributed significantly. It has been noted that external factors are the most serious influences of the financial difficulties, with excessive fiscal regime (10% of gross revenue) and the exchange rate policy being the most important contributory factors. This resulted in a production slowdown, investments falling off, a broken relationship with suppliers and a going concern statement. The four constructs showed significant positive relationship with each other and the highest positive correlation coefficient was between financial challenges and operational impacts ($r=0.65$ and $p<0.01$). External factors emerged to be the main cause of both distress and decline. There was a clear reform consensus in favor of fiscal relief, professionalization of governance and retention of foreign currency.

5.2 Discussion of findings

5.2.1 Principal financial challenges

The study also showed that Zimbabwe Consolidated Diamond Company is facing advanced and accelerating financial distress characterized by chronic working capital shortages (96.6% agreement), supplier payment arrears (91.5%) and accumulated short term debt (88.1%) as the

most severe problems. Documentary evidence confirmed that the business was in deteriorating circumstances on all financial indicators from 2020 to 2025 which culminated in a going concern warning in 2025. The results are consistent with the **financial distress theory** (Wruck, 1990): ZCDC satisfies all the diagnostic criteria and a negative interest cover ratio indicates the shift from financial distress to economic distress (Outecheva, 2007). The strong positive Pearson's correlation of financial challenges and impact score validate the theory's postulation that liquidity crises directly correspond to an operational decline.

5.2.2 Internal factors driving financial challenges

Internal governance weaknesses-weak financial controls (76.3% agreement), inadequate budgeting (71.2%) obsolete equipment (61%) and absence of strategic direction (64.4% disagreement) were perceived to be the significant contributory factors to financial distress. The Auditor-General documented 12 million irregular procurement, a board meeting only twice in 2024 and Chief internal auditor position vacant for 14 months. These findings are explained through the **agency theory** (Jensen & Meckling, 1976) and the **public choice theory** (Buchanan & Tullock, 1962): the state has failed to exercise effective oversight control. The correlation pattern: internal factors with financial challenges ($r=0.48$) and financial challenges with impact ($r=0.65$) suggest a mediated pathway whereby governance failure cause financial squeezes which then results in operational collapse.

5.2.3 External Factors Driving Financial Challenges

Financial distress was found to be most influenced by external squeezes. The fiscal burden gained 94.9% agreement with 0% disagreement, exchange rate volatility 93.3% and forex retention constraints 76.3%. The Parliamentary Committee reported that the loss on the fiscal take was US\$6 per carat, with exchange rate losses of as much as US\$10.3 million in 2025. These findings can be best explained by the **resource dependence theory** (Pfeffer & Salancik, 1978): ZCDC's asymmetrical dependency on the government and Reserve Bank has given them a chance for a resource squeeze which has made the company commercially not viable. A strong positive correlation of 0.61 ($p < 0.01$) between the External Factors and the Financial Challenges Score is the highest predictor relationship obtained in this study.

5.2.4 Impact on Operations and Sustainability

The consequences of financial distress were severe and near-universally acknowledged: threatened viability (94.9%), investment paralysis (89.9%), and production stoppages (86.5%). Production declined 43.8% over six years, capital expenditure collapsed by 90% and government-guaranteed debt reached US\$92 million. The strongest correlation in the study is between financial challenges and impacts ($r = 0.65$), empirically validates the financial distress theory proposition that liquidity crises have real, severe operational consequences. The qualitative theme of the "vicious cycle of underinvestment" articulates the self-reinforcing mechanism: cash constraints prevent investment, reducing production and revenue which further deepens cash constraints.

5.2.5 Mitigation Strategies

A clear reform consensus emerged, with fiscal regime review (96.6%), internal control strengthening (91.5%) and export earnings retention (93.2%) overwhelmingly endorsed. This internal consensus aligns perfectly with the recommendations of the Auditor-General and Parliament. However, Public choice theory predicts this dynamic: concentrated interests benefiting from the current levy, forex, and patronage arrangements have the power to resist reforms that would serve the diffuse public interest.

5.3 Conclusions

1. **ZCDC is in terminal financial distress.** The company is technically insolvent, with a current ratio of 0.43, a debt-to-equity ratio of 3.68 and negative profitability since 2020. A going concern warning has been issued. Under current policy and governance conditions the company is commercially non-viable.
2. **The distress is caused by a toxic interaction of internal governance capture and external policy-driven resource extraction.** A politicized board, weak controls and irregular procurement have enabled financial haemorrhage while a fiscal regime extracting 10% of gross revenue and a damaging exchange rate policy have stripped the company of resources needed to operate and invest.
3. **Internal and external factors are mutually reinforcing in a vicious spiral.** Governance failures enable procurement leakages that deplete cash, fiscal and forex policies further deplete cash, preventing investment, declining production reduces revenue further

deepening the crisis. The correlation between internal and external factors ($r = 0.38$) is the statistical signature of this interaction.

4. **The company has become a significant contingent liability on the fiscus.** Government-guaranteed debt of US\$92 million and a requested US\$50 million equity injection mean ZCDC now drains rather than contributes to the treasury, the opposite of its founding mandate.
5. **A viable reform pathway exists and commands broad consensus** among staff, the Auditor-General and Parliament centered on fiscal relief, governance professionalization and forex retention

5.4 Recommendations

The researcher recommended the following as ways to address the financial challenges identified.

5.4.1 To the Government of Zimbabwe

1. **Restructure the fiscal regime immediately.** Reduce the royalty fee from 10% to no more than 5% of gross revenue and convert the royalty to a profit-based charge. The current regime is mathematically guaranteed to produce losses at prevailing diamond prices.
2. **Permit retention of export earnings.** Allow ZCDC to retain at least 70% of export proceeds in foreign currency and end the mandatory forex surrender at below-market rates.
3. **Depoliticize SOE governance.** Enforce the Public Entities Corporate Governance Act by appointing boards based on professional competence and empowering an independent authority to vet appointments and remove non-performing boards.
4. **Evaluate a strategic private-sector partnership.** The Debswana model where government retains 50% ownership while benefiting from private capital, expertise and market access, offers a proven template for the capital-intensive kimberlite transition.

5.4.2 To ZCDC Management and Board

1. **Implement emergency cash conservation.** Freeze non-essential expenditure, negotiate prioritized payment plans with critical suppliers and institute weekly cash flow forecasting with daily monitoring.

2. **Professionalize the board and management.** Replace the current board with a majority of independent, professionally qualified directors, fill the vacant Chief Internal Auditor position immediately and establish performance contracts tied to financial and operational targets.
3. **Develop a credible strategic plan.** Produce a five-year plan prioritizing the transition from alluvial to kimberlite mining, with specific capital requirements, measurable milestones and governance commitments, publicly disclosed to rebuild stakeholder confidence.

5.4.3 To the Reserve Bank of Zimbabwe

1. **Revise the forex surrender policy for exporters.** Align retention ratios with the operational and capital needs of the mining industry and narrow the gap between official and parallel market exchange rates.

5.5 Suggestions for Further Research

1. **Comparative analysis** of ZCDC with other Zimbabwean mining SOEs to determine whether the identified pathologies are company-specific or systemic.
2. **Longitudinal study** tracking ZCDC following any reform interventions to test the political economy barriers to turnaround.
3. **Econometric modelling** of alternative fiscal scenarios to provide policymakers with precise, quantitative options for reform.
4. **Stakeholder perceptions** beyond management suppliers, buyers, community representatives, and government officials to provide a 360-degree perspective.
5. **Impact of laboratory-grown diamonds** on the financial viability of African state-owned natural diamond producers.

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APPENDICES

Appendix A, cover letter



Bindura University of Science Education

P. Bag 1020

Bindura

Dear Respondent

The researcher, Justice Dhliwayo, is a fourth-year student and Bindura University of Science Education who is currently undertaking research on **“AN INVESTIGATION INTO THE FINANCIAL CHALLENGES AFFECTING STATE-OWNED ENTERPRISES IN ZIMBABWE. A CASE OF ZCDC”**. In order to make this project a success, the researcher is kindly requesting your assistance by completing the attached research questionnaire. For confidentiality purposes, respondents are advised not to disclose their names on the questionnaire.

For any further inquiries regarding this research, feel free to contact me on: 0788304094 or on the following email address: dhliwayojustice75@gmail.com

Thank you

Yours sincerely

Justice Dhliwayo

Appendix B

Research questionnaire

Participation information

Place a visible (*Tick ✓*) in the appropriate box for the close-ended questions and write in your own words in the space provided when answering open-ended questions. Answered questionnaires can be forwarded to WhatsApp number 0788304094 or email: dhliwayojustice75@gmail.com.

Key

SD=1, D=2, N=3, A=4, SA=5

SD- Strongly disagree

D- Disagree

N- Neutral

A- Agree

SA- Strongly Agree

Section A: Demographics

A1: Work experience

1-3 years	4-6 years	7-9 years	10 years or more
☐	☐	☐	☐

A2: Education

Diploma	Bachelor's degree	Master's degree	Professional qualification (ACCA, CIMA, CA)	Doctorate
☐	☐	☐	☐	☐

A3 Department

Finance	Procurement	Operations	Internal Audit
☐	☐	☐	☐

A4 Current Job Level

Senior Manager	Assistant manager	Manager	Head of Department
☐	☐	☐	☐

Section B: Financial challenges

No	Statement	SD	D	N	A	SA
1	The company experience chronic shortages of working capital	☐	☐	☐	☐	☐
2	ZCDC struggles to pay suppliers on time	☐	☐	☐	☐	☐
3	The company has accumulated significant short-term debt	☐	☐	☐	☐	☐
4	Profit margins have been declining over recent years	☐	☐	☐	☐	☐
5	ZCDC is unable to remit dividends to the shareholder	☐	☐	☐	☐	☐
6	The company finds it difficult to service its long-term loans	☐	☐	☐	☐	☐
7	Cashflow from operations is insufficient to cover capital investment needs	☐	☐	☐	☐	☐
8	The company relies heavily on government bailouts or guarantees	☐	☐	☐	☐	☐

Section C: Internal factors contributing to financial challenges

No	Statement	SD	D	N	A	SA
9	Financial controls and internal audit functions are weak	☐	☐	☐	☐	☐

10	Budgeting and cashflow forecasting are inadequate	☐	☐	☐	☐	☐
11	There is a clear strategic plan guiding financial decisions	☐	☐	☐	☐	☐
12	The company relies on obsolete or poorly maintained equipment	☐	☐	☐	☐	☐

Section D: External factors contributing to financial challenges

No	Statement	SD	D	N	A	SA
13	The burden of mineral royalties (10%) is excessive	☐	☐	☐	☐	☐
14	Exchange rate volatility creates significant financial losses for the company	☐	☐	☐	☐	☐
15	Global rough diamonds prices have been unstable, negatively affecting revenue	☐	☐	☐	☐	☐
16	Lab-grown diamonds are exerting downward pressure on natural diamond prices	☐	☐	☐	☐	☐
17	Inflation has limited impact on our costs since we transact mainly in US dollars	☐	☐	☐	☐	☐

Section E: Impact of financial challenges

No	Statement	SD	D	N	A	SA
18	Production has been interrupted due to lack of funds for fuel, spares and other consumables	☐	☐	☐	☐	☐
19	The company is unable to invest adequately in new mining technology and exploration	☐	☐	☐	☐	☐
20	Staff morale has declined due to delayed or irregular payments	☐	☐	☐	☐	☐

21	The company's reputation with suppliers and international buyers has been damaged	☐	☐	☐	☐	☐
22	The long-term viability of ZCDC is threatened unless major changes are implemented	☐	☐	☐	☐	☐

Section F: Strategies for mitigating financial challenges

NO	STATEMENT	SD	D	N	A	SA
24	The fiscal regime should be reviewed to reduce the combined royalty and fidelity levy burden	☐	☐	☐	☐	☐
25	Internal controls and procurement transparency must be strengthened	☐	☐	☐	☐	☐
26	Diamond marketing channels should be diversified to secure better and more stable prices	☐	☐	☐	☐	☐
27	The company's long-term debt should be restructured into longer maturities	☐	☐	☐	☐	☐
28	ZCDC should be allowed to retain a larger portion of its export earnings in foreign currency working capital	☐	☐	☐	☐	☐
29	Cashflow forecasting and working capital management practices should be improved	☐	☐	☐	☐	☐

Section G: Additional insights

30. In your own view, what is the single most critical factor that has contributed to ZCDC's current financial difficulties.

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Thank you for your participation!!!!