

International Journal of **Public Policy and Administration** (IJPPA)

CORPORATE GOVERNANCE PRACTICES AND PERFORMANCES IN THE MOBILE AND DATA SERVICES COMPANIES IN RWANDA

Edgar Omuta and Dr. Z.B. Awino



**CARI
Journals**

CORPORATE GOVERNANCE PRACTICES AND PERFORMANCES IN THE MOBILE AND DATA SERVICES COMPANIES IN RWANDA

^{1*}Edgar Opat

¹Post Graduate Student: University of Nairobi

*Corresponding Author's Email: edgaropata@yahoo.com

²Dr. Z.B. Awino

Lecturer: University Of Nairobi

Abstract

Purpose: The study sought to determine the corporate governance practices and performances in the mobile and data services companies in Rwanda

Methodology: The research was carried out through descriptive survey design. Data was analyzed using Statistical Package for Social Sciences (SPSS) and results presented in frequency tables to show trend of the responses for the various questions posed to the respondents. The data was then analyzed in terms of descriptive statistics like means and percentages.

Results: The results revealed financial disclosure was a key determinant of company's performance or profitability. This was demonstrated by the mean score of responses of the respondents. However financial disclosure was found not to be statistically significant in influencing profitability. Results showed that executive compensation influenced profitability as this was demonstrated by the mean score of the responses and the regression. The correlation between executive compensation and profitability was also found to be strong and positive. The study findings showed that ownership structures were a key ingredient of company's performance. Ownership structures were found to be statistically significant. The fourth and final objective was to find out whether legal structure influenced company's profitability. It was found that legal structure was important to firm's profitability but was not statistically significant.

Unique contribution to theory, practice and policy: The study recommends that the management should practice financial transparency by ensuring that the company follows international financial report standards and guidelines in making the annual reports and ensure that they release quarterly performance reports to the public and their business partners. The study also recommends that the effectiveness of the board is very essential in today's competitive environment for increases firm value. It is also recommended that the firm should have well-

structured ownership structures in their companies. The study recommends that the company should have a legal structure in place to ensure that all the legal battles are sorted out of court.

Keywords: *corporate governance practices, performances, mobile, data service company*

1.0 Background of the Study

In broad terms, corporate governance refers to the processes by which organizations are directed, controlled and held accountable. It encompasses authority, accountability, stewardship, leadership, direction and control exercised in organizations. Corporate governance is a concept that is currently receiving a great deal of attention worldwide in both private and public sectors (PSCGT, 2002). Corporate performance defines measures both financial and non-financial that are used as a means to define either the success or failure of corporate governance practices and application. Corporate practices refers those policies, rules, regulation that define the relationships between various stakeholders of company ranging from public, employees, owners, managers and shareholders. The agency, Stakeholder's and resources dependent theories have been developed around Corporate governance, practices and performance to provide a platform for analyzing the relationship between variables and their effects on the performance of corporate governance practices. The agency theory argues that an agency relationship exists when shareholders (principals) hire managers (agents) as the decision makers of the corporations. The resource dependent theory determined three factors that influence the level of dependence that an organization has for a particular resource namely overall importance, scarcity of the resource, competition between organizations for control of resource. Rwanda is considered as one of the least corrupt countries in the world (Corruption perception index by TI); recent reports by the World Bank put it as one of the few countries to be on track towards achieving the millennium development goals and also becoming a middle income economy by 2030. Rwanda has also regularly topped the ease of doing business report in the world. Rwanda aims to transform itself to a service led economy with Telecommunication sector being the cornerstone. The importance of good corporate practices is important for the Telecommunication sector because Rwanda being landlocked it efficient utilization of resources within its control is key.

1.1 Corporate Governance

The governance of the corporation is now as important in the world economy as the government of countries (Wolfensohn, 1999). This sentiment of the former president of the World Bank underscores the critical position corporations have come to play in both our economic and social lives. It may also speak to the global reach and political power of corporations, which, in many cases, now transcend the reach and power of governments. Indeed, during the past decade, several events are responsible for the heightened interest in corporate governance especially in developed countries in America, in Europe, and in some African developing countries. First, there has been a proliferation of corporate scandals (Enron, 2001; WorldCom, 2002; Parmalat, 2003) and crises (Asian financial crises, 1997; Russian financial crises, 1998; Lehman Brothers, 2008) and the recent economic crisis in the Euro zone) across the globe in which the behavior of the corporate sector affected entire economies and deficiencies in corporate governance endangered the stability of the global financial system. Cadbury (1992) defined corporate governance as the system by which companies are directed and controlled. Corporate governance

is the way in which the affairs of the corporation are handled by corporate boards and officers. Hampel (1998) observes that good governance ensures that constituents (stakeholders) with a relevant interest in the company's business are fully taken into account.

1.2 Corporate Practices

Montgomery and Kaufman (2003) acknowledge that the corporate balance of power is delicate. The three principal actors in this power game are the shareholders, management and the board of directors. The rules, regulations and bodies that define the interrelationship between them is what is referred to practices and is key to effective governance and forms a triangular relationship. The corporate practices include financial management and disclosures, constituting of independent boards, make use of board committees, conflict of interest rules, making timely and balanced disclosures, good hiring practices, ethical and responsible decision making, recognize and manage risks. However the stated corporate practices are not static they must evolve and innovate to meet new demands and grasp new opportunities. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set and the means of attaining these objectives and monitoring performance (OECD, 1999).

1.3 Corporate Performance

In the past decade, empirical research has shown significant relationships between various corporate governance features and business performance (ROA, ROE or profitability (Bauer et al., 2008). There are several financial and non-financial measures of performance. The Financial measures of performance include profitability, return on investments, return on assets, the non-financial measures of performance include employee turnover, environmental compliance, service quality, customer satisfaction. Until recently, however, the majority of researchers have focused on specific features of corporate governance, which makes it difficult to establish an overall relationship between corporate governance and business performance. According to Bohren and Odegaard (2003), relating corporate performance to a particular aspect of corporate governance may not capture the true relationship, unless that specific aspect is controlled for other aspects of governance. This argument has inspired several researchers to construct a single governance index, which is a scorecard that measures a firm's corporate governance over several dimensions.

1.4 Telecommunication Industry in Rwanda

Rwanda's history of mobile telecommunication companies was pioneered by MTN Rwanda cell which received a license in 1998 to provide GSM services for both post and prepaid subscribers. MTN's monopoly in Rwanda lasted for ten years until the first national telecom provider Rwandatel joined the mobile market. In 2011 Rwandatel had its license revoked by the Rwanda telecom regulator due to failure meet license obligation such as coverage, planned investment and quality of service. The Rwanda Telecommunication sector has recently witnessed rapid growth with the Government divesting from the two largest companies MTN and Rwandatel. This has been in line with the Government aim of transforming Rwanda into a service led economy with technology as the cornerstone. New entrants into the Telecommunication sector

include the Government led BSC Ltd, Liquid Telecommunication Ltd, Altechstream Rwanda Ltd, Tigo Rwanda Ltd and Airtel. Corporate governance in Rwanda is considered to be in its early stages; in 2008 the private sector federation opened a center for corporate governance with aim of giving training in corporate governance. Thus in Rwanda unlike other developing countries where corporate governance was initially private sector led, the government took a lead in promoting corporate governance. Until recently, the State's involvement as producer and provider of economic services has been widespread, while the private sector is said to be in its infancy.

1.5 Research Problem

The alarming rate of company failures due to mis-governance and mismanagement in developing countries and the apparent failure of inbuilt corporate governance and management devices to arrest the phenomenon made this research work imperative. There is need to establish a relationship between good corporate governance practices implementation and performances this especially so since it is the expectation of every shareholder who has chosen to invest in companies that there will be return on his or her investment. Those in charge of governance or management are either those who have no personal investment at all or those who are in control of majority shares in the company. This scenario thus necessitates that there should be adequate safeguards in place not only to discover and check improprieties in companies but also to deter those seeking to perpetrate them. In the Rwanda telecommunication sector, shareholders are Government led, stock exchange is still at its infancy stage, and foreign investors manage through proxies and multi nationals that have investors mostly dispersed outside the country. Despite the fact that Rwanda has ratified most of the key international standards and codes in corporate governance and that a regulatory framework to promote good corporate governance is in place, there is still an overall lack of awareness of this concept. There has been no study to establish the relationship between good corporate governance practices and performance. In the recent past, various studies on corporate governance have been done; Wasike (2012) (Elimu Sacco, studied the main tasks of corporate governance), Mokeira (2010) (Kenya Revenue Authority determined and established corporate governance structures adopted by it) and Ngumi (2008) (corporate governance practices in HFCK in which he explored the factors that influence corporate governance and whether they match good practices recommended).

Brown and Caylor (2004) on corporate governance and profitability of US firms where they found that better governed firms are relatively more profitable, more valuable and pay more cash to their shareholders, Lipton and Lorsch (1992) and Jensen (1993) opine that limiting board size improves firm performance because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision making of larger groups, A study by Yermack (1996) shows an inverse relationship between board size and profitability and asset utilizations. DrobetzSchillhofer and Zimmerman (2004) found a positive relationship between governance practices and firm valuation for German public firms. Based on the foregoing reviewed relevant studies, no specific study has been focused the Telecommunication sector in Rwanda, there is need for more empirical work on corporate governance in a young democracy like Rwanda and link between the corporate governance practices and performances. This is especially so because of the growing importance of Rwanda as hub to the great lakes region. This study seeks to fill this knowledge gap of limited Rwanda corporate governance practices

and performance literature. This study seeks to address the following pertinent research questions in the Rwanda mobile and data companies, what are the existing corporate governance structures? What are the relationship between quality board of directors and Rwanda mobile and data companies' performance? What factors influence corporate governance practices and performances? Are there adequate governance disclosures as recommended by the Rwanda private sector federation and finally?

1.6 Research Objective

The study objective is to establish and document the corporate governance practises and their relationship to performances' in the mobile and data services companies in Rwanda.

2.0 LITERATURE REVIEW

2.1 Theoretical Framework

According to Trochim (2006), Aguilar (2009) and Tormo (2006), a theoretical framework guides research, determining what variables to measure, and what statistical relationships to look for in the context of the problems under study. Thus, the theoretical literature helps the researcher see clearly the variables of the study; provides a general framework for data analysis; and helps in the selection of applicable research design. The Theory guides every aspect of research, from formulation of the research question through operationalization and discussion.

2.1.1 Agency Theory

Since Jensen and Meckling (1976) proposed a theory of the firm (Agency Theory) based upon conflicts of interest between various contracting parties—shareholders, company managers and debt holders a vast literature has been developed in explaining both aspects of these conflicts. Jensen and Meckling (1976) further specified the existence of –agency costs which arise owing to the conflicts either between managers and shareholders (agency costs of equity) or between shareholders and debt holders (agency costs of debt). Financial markets capture these agency costs as a value loss to shareholders. Jensen and Meckling (1976) defined the agency relationship as a contract under which one party (the principal) engages another party (the agent) to perform some service on their behalf. As part of this arrangement, the principal will delegate some or all of the decision-making authority to the agent. In practice, shareholders from most corporations delegate the decision-making authority to the board of directors (BOD). In turn, the BOD delegates power to the chief executive officers (CEO). The agency problems arise because of the impossibility of perfectly contracting for every possible action of an agent whose decisions affect both his own welfare and the welfare of the principal. The agency theory argues that an agency relationship exists when shareholders (principals) hire managers (agents) as the decision makers of the corporations. Agency problems arise because managers will not solely act to maximize the shareholders' wealth; they may protect their own interests or seek the goal of maximizing companies' growth instead of earnings while making decisions. Jensen and Meckling (1976) suggested that inefficiency may be reduced as managerial incentives to take value maximizing decisions increased.

Agency costs arise from divergence of interests between shareholders and company managers. In order to minimize monitoring costs, managers tend to set up the principles or structures and try

to act in the shareholder's best interests. The costs of establishing and adhering to these systems are known as bonding costs. They may include the costs of additional information disclosures to shareholders, but management will obviously also have the benefit of preparing these themselves. Agents will stop incurring bonding costs when the marginal reduction in monitoring equals the marginal increase in bonding costs. As suggested by the agency theory, the optimal bonding contract should aim to entice managers into making all decisions that are in the shareholder's best interest. However, since managers cannot be made to do everything that shareholders would wish, bonding provides a means of making managers do some of the things that shareholders would like by writing a less than perfect contract. Despite monitoring and bonding, the interests of managers and shareholders are still unlikely to be fully aligned. Therefore, there are still agency losses arising from conflicts of interest. These are known as residual loss, which represent a trade-off between overly constraining management and enforcing contractual mechanisms designed to reduce agency problems.

2.1.2 Resource Dependence Theory

Pfeiffer and Salancik (1978) determined three factors that influence the level that dependence organizations have on particular resources. First, the overall importance of the resource to the firm is critical in determining the resource dependence of the firm. Second, the scarcity of the resource is also a factor. The scarcer a resource is the more dependent the firm becomes. Finally, another factor influencing resource dependence is the competition between organizations for control of that resource. Together, all three of these factors act to influence the level of dependence that an organization has for a particular resource. Resource dependence theory also suggests that a firm's strategic options are determined to a great extent by the environment. Since firms are dependent on the environment for resources, they need to enact strategies that will allow them to acquire these resources. Therefore, the external environment has already been determined for these firms, and they experience little strategic choice. However, those who support the notion of managerial choice have argued that some organizations are more effective than others in the same environments, thus proving that strategic choice does exist.

2.1.3 Stakeholder Theory

Stakeholder theory is an extension of the agency view, which expects boards of directors to take care of the interests of shareholders. However, this narrow focus on shareholders has undergone a change and boards are now expected to take into account the interests of many different stakeholder groups, including interest groups linked to social, environmental, and ethical considerations (Freeman, 1984; Donaldson & Preston, 1995; Freeman, Wicks & Parmar, 2004). This shift in the role of the boards has led to the development of stakeholder theory. Stakeholder theory views that companies and society are interdependent and therefore the corporation serves a broader social purpose than its responsibilities to shareholders. Stakeholder theory recognizes that many groups have connections with the firm and are affected by firm's decision making.

Freeman et al. (2004) suggest that the idea of value creation and trade is intimately connected to the idea of creating value for shareholders; they observe that business is about putting together a deal so that suppliers, customers, employees, communities, managers, and shareholders all win continuously over time. Donaldson and Preston (1995) refer to the myriad participants who seek multiple and sometimes diverging goals. A manager's view of the stakeholders' position in the

firm influences managerial behavior. However, Freeman et al. (2004) have suggested that managers should try to create as much value for stakeholders as possible by resolving existing conflicts among them so that the stakeholders do not exit the deal.

2.2 Models of Codes of Best Practices

This section explores models that have been used as a benchmark for best practice. The OECD (1999, (2004), Principles of Corporate governance have gained worldwide recognition as an international benchmark for good corporate governance since they were issued in 1999. They are actively used by governments, regulators, investors, corporations and stakeholders in both OECD and non-OECD countries and have been adopted by the Financial Stability Forum as one of the Twelve Key Standards for Sound Financial Systems. The OECD principles are ,ensuring basis for an effective corporate governance framework, the rights of shareholders and key ownership functions, the equitable treatment of shareholders, the role of stakeholders, disclosure and transparency and the responsibilities of the board. The Cadbury Report of 1992, which identified the fundamental principles of corporate governance as openness, integrity and accountability, the Greenbury Report of UK 1998, which was set up in response to public and shareholders concern for the remuneration of directors. The Greenbury report emphasized accountability, responsibility, and full disclosure, alignment of directors and shareholders' interest and improved performance. The Kings Reports 1 and 2 of South Africa (1999, 2002) on Corporate Governance for South Africa, the Kings committee on corporate governance was headed by a former Supreme Court judge, Mervyne King, S.C. The committee published its reports in 1994 to incorporate a code of best practice to promote the highest standard of corporate governance. The ambit of the report, apart from incorporating the financial and regulatory aspects of corporate governance, also advocates an integrated approach to good corporate practice. Due to perceived inadequacies in the 1994 report, and the need for greater corporate accountability, transparency and shareholder confidence, the Kings committee released the Kings Report 2002, which embodies essentially the concept of triple-bottom-line reporting encompassing the economic, environmental and social aspects of corporate governance. The report emphasized the involvement of a wider spread of internal and external stakeholders consisting of workers, trade unions, consumers, suppliers.

2.2.1 Financial Transparency and Disclosure

Transparency and information disclosures are keys to effective shareholder control and protection. Information about a company usually includes financial results of the company, major share ownership, the members of the board of directors and key executives and their remuneration, foreseeable major risk factors, governance structures, and company objectives and policies. There are several major areas that may affect the elements of financial transparency (Kulzick, 2004), including accounting standard and oversight (disclosure related to all off-balance sheet transactions and other relationships with unconsolidated entities must be disclosed), reporting timing standards (all material changes in financial condition or operations must be reported in a rapid manner, referred to real time disclosure), responsibility standard (audit committee of the board is responsible for appointment, compensation, and oversight of the public accounting firm performing the audit), and document standard (audit work papers must be maintained for five years—section 108) (Teng, Aun& Fook, 2010). Financial transparency

involves at least eight related concepts such as accuracy (information follows the standards), consistency (consistently of the standard application), appropriateness (standard use clearly re-elected the underlying economic reality of the organization), completeness (all information needed by the user should be available), clarity (information present should be clear and understand to user), timeliness (information should be presented within a reasonable time after it is known), convenience (easy accessible information) and governance (adequate policies in place) (Kulzick, 2004).

2.2.2 Board of Directors

Owners appoint directors to the board and in theory; board of directors is the owners' first line of defense against any attempt to expropriate their wealth by professional managers. In reality, however, the value of board's contributions is not apparent and in fact it is a subject of much debate. In the context of CG research, the primary board-related issues that have been extensively studied include the size and composition of the board. Size simply means the number of directors that comprise the board. Issues under board composition include the participation of independent directors in the board, the leadership structure in particular the posts of chairman and chief executive officer and the existence and roles of board committees to assist the board in decision making as well as supervising the management team (Ramly & Rashid, 2010).

Empirical studies prove the existence of a relation between the state of corporate governance in an economy and the severity of crisis that it suffers (Johnson et al., 2000). This view is also taken by La Porta et al. (2000) who further illustrate that, across countries, corporate governance is an important factor in financial market development and the firm value. Recommendations such as the Treadway Commission (1987) and the Blue Ribbon Committee (1999) in the US, the Cadbury Committee (1992) and Higgs Committee (2003) in the UK and the Vienot Report (1995) in France, provide examples on the importance placed on corporate governance in different countries to protect the shareholder's wealth. The focus of most studies on the determinants of board structure has been primarily on large unregulated firms (Shivdasani & Yermack, 1999; Boone et al., 2007; Linck et al., 2008). Board of directors in banks has received only limited attention. However, banking firm governance differs from the governance of unregulated firms. Adams and Mehran (2003) find that the boards of bank holding companies are larger than those of manufacturing firms. Besides, more board directors of BHC are from outsiders. Contrary to the evidence found for nonfinancial firms, Belkhir (2009) also indicate that banking firms with larger board do not underperform their peers. Since the health of the overall economy depends on banks performance and the board of directors plays a crucial role on monitoring banks' performance, understanding the determinants of banks' board structures is more important than ever before at the time when the banking industry becomes increasingly deregulated (Adams & Mehran, 2003).

2.2.3 Executive Compensation

Research on executive compensation mainly concerns with the extent to which the managers are remunerated in ways that align their interests with those of their firms' owners. Jensen and Meckling (1976) underscore the importance of incentive alignment solution to agency Problems when they propose that executive compensation should be designed in such a way that can reduce the degree of conflict of interest between shareholders and managers. Theoretically,

effective compensation system is the one that motivates managers to forego their opportunistic behaviors and focus on value maximization activities (Ramly& Rashid, 2010).

2.2.4 Ownership Structure

According to Jensen (2000), ownership structure is a significant determinant of firm's objectives, shareholders' wealth and the extent of managerial opportunistic behavior. Although, in general ownership is separated from control in most publicly held firms, it is rarely completely separated within any firm. Frequently, managers do own some shares in a firm effectively making them owner manager. When directors and managers own firms' shares, it will help to change their attitude from purely manager to owner-manager mentality. Having owner manager mentality pushes the managers to strive for value creation activities failing which the value of their share ownership may be impaired. Block holders who own a substantial portion of a firm's shares can use their influence to discipline managers to work toward value maximization. Managers are most likely compelled to minimize their opportunistic tendency for which the block holders can exercise their voting power to remove errant managers. Next, institutional shareholders are seen as effective governance mechanism due to the fact that they normally hold substantial percentage of ownership, which gives them more clout in influencing the board in aligning management interest with those of the shareholder group. Large institutional shareholders, by virtue of holding large proportion of shares, have less incentive to simply exit a firm without affecting the share price. Hence, they tend to resort to voice, which means undertaking monitoring activities to ensure the management does not deviate from value maximization activities (Jensen, 2000).

In family-owned companies, the classic agency conflict between owners and managers is greatly alleviated due to less separation of ownership and control, which means lesser asymmetric information and greater alignment of owners-managers interest. In addition, larger family shareholder has greater incentives to monitor the manager because the family's wealth is closely related to firm welfare. Moreover, family owned-firms usually have longer investment horizons, which can help to mitigate the inclination of managers for myopic investment decisions (Ramly& Rashid, 2010).

2.2.5 Legal System

Legal environment—as characterized by both legal rules and their enforcement— provides protection to both shareholders and creditors from expropriation by the managers and controlling shareholders of a firm. The extent to which legal environment is able to provide this protection influences the effectiveness of the corporate governance structure of firms in a particular country. LaPorta et al. (2000) underscore the importance of investor protection when they suggest that in many jurisdictions controlling shareholders have been known to expropriate minority shareholders' and creditors' wealth extensively. As such, a strong investor protection accorded by a country's legal system provides greater security to the property rights of shareholders. Moreover, strong investor protection is associated with effective corporate governance, as reflected in valuable and broad financial markets, dispersed ownership of shares, and efficient allocation of capital across firms (Ramly & Rashid, 2010)

3.0 RESEARCH METHODOLOGY

The research was carried out through descriptive survey design because it involves gathering of facts, opinions and views of the employees in the organization about the corporate governance practices. The population of this research consists of all companies registered by the Rwanda Utilities Regulatory Agency. The study used both primary and secondary data. Financial performance (profit before tax) was collected for a period of three years (2010-2012). Data was analyzed using Statistical Package for Social Sciences (SPSS) and results presented in frequency tables to show trend of the responses for the various questions posed to the respondents. The data was then analyzed in terms of descriptive statistics like means and percentages.

4.0 RESULTS AND DISCUSSIONS

4.1 Years of Service

The respondents were asked to indicate the years of service they have been in the industry. Results on Table 1 indicate that 55% of the respondents had been in service for a period of between 5 years and below and 45% indicated between 6-10 years. The findings imply that the employees had been in the telecommunication industry for more than three years therefore able to understand the corporate governance practices practiced in the organization. It can also be assumed that most of them had a remarkable experience which perhaps leads into the realization of the effects of corporate governance practices.

Table 1: Years of Service

Years of Service	Frequency	Percent
5 years and below	18	54.5
6-10 years	15	45.5
Total	33	100

4.2 Position Held

The study sought to establish the position of respondents in the organization. Table 2 indicates that 30% of the respondents were at supervisory level, 27% indicated middle management while 24% indicated senior management and 18% indicated they were board members. The findings imply that all the respondents were in management positions hence they had knowledge about corporate governance practices hence accurate responses for the study.

Table 2: Position Held

Position	Frequency	Percent
Board Member	6	18.2

Senior Management	8	24.2
Middle Management	9	27.3
Supervisory	10	30.3
Total	33	100

4.3 Corporate Governance Practices

This section presents the descriptive statistics in line with the objectives of the study.

4.3.1 Financial Disclosure

The study sought to find out the effect of financial disclosure on performance of mobile and data services companies in Rwanda. Results on Table 3 reveal that 70% of the respondents agreed that their company follow international financial report standards and guidelines in making the annual reports, 79% agreed that they always release quarterly performance reports to the public and our business partners and 72% agreed that their financial performance reports are discussed by a board before release to shareholders. Eighty five percent of the respondents agreed that they do not conceal financial information from their stakeholders, 100% of the respondents agreed that their financial reports are available at will from interested parties and 2% agreed that they post their financial reports on the company website. The mean score of responses for this section was 3.83 which indicate that majority of the respondents agreed with the statements regarding financial disclosure at mobile and data services companies in Rwanda. These results imply that the respondents could access the financial reports and were happy since the companies shared the company's growth thus knew the direction the company was heading to. The findings agree with those in Kulzick (2004) who asserted that financial transparency involves at least eight related concepts such as accuracy (information follows the standards), consistency (consistently of the standard application), appropriateness (standard use clearly re-elected the underlying economic reality of the organization), completeness (all information needed by the user should be available), clarity (information present should be clear and understand to user), timeliness (information should be presented within a reasonable time after it is known), convenience (easy accessible information) and governance (adequate policies in place).

The findings concur with those in Teng, Aun and Fook (2010) who argued that there are several major areas that may affect the elements of financial transparency which includes accounting standard and oversight (disclosure related to all off-balance sheet transactions and other relationships with unconsolidated entities must be disclosed), reporting timing standards (all material changes in financial condition or operations must be reported in a rapid manner, referred to real time disclosure), responsibility standard (audit committee of the board is responsible for appointment, compensation, and oversight of the public accounting firm performing the audit), and document standard (audit work papers must be maintained for five years–section 108).

Table 3: Financial Disclosure

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Likert Mean
Our company follows international financial report standards and guidelines in making the annual reports	18%	6%	6%	37%	33%	3.61
We always release quarterly performance reports to the public and our business partners	21%	0%	0%	58%	21%	3.58
Our financial performance reports are discussed by a board before release to shareholders	18%	9%	0%	33%	39%	3.67
We do not conceal financial information from our stakeholders	15%	0%	0%	33%	52%	4.06
Our financial reports are available at will from interested parties	0%	0%	0%	64%	36%	4.36
We post our financial reports on the company website	18%	0%	0%	58%	24%	3.7
Average Likert Mean						3.83

4.3.2 Executive Compensation

The second objective of the study explored the influence of executive compensation on performance of mobile and data services companies in Rwanda. Table 4 shows 72% of the respondents agreed that basic Salary was the main remuneration type for executives in our company, 79% agreed that subsidized company Housing was a popular way of remunerating executives in their company and 78% agreed that Interest Free Mortgage was used in their company to motivate executives. Eighty four percent of the respondents agreed that bonus was used to compensate senior management, 63% agreed that share options are used to compensate board members and senior management in their company, 79% agreed that profit share was popular way of remunerating executives in their company and 76% agreed that senior management are provided with Life Insurance in their company. The mean score for the responses was 3.97 which indicate that many employees agreed that executive compensation was a key driver of performance. The results revealed that executive compensation motivated many employees at Telecommunications industry hence improved performance for the whole organization at large. The findings agree with those in Jensen and Meckling (1976) who underscores the importance of incentive alignment solution to agency problems when they

propose that executive compensation should be designed in such a way that can reduce the degree of conflict of interest between shareholders and managers. The findings also concur with those in Ramly and Rashid (2010) who asserted that effective compensation system is the one that motivates managers to forego their opportunistic behaviors and focus on value maximization activities.

Table 4: Executive Compensation

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Likert Mean
Basic Salary is the main remuneration type for executives in our company	15%	9%	3%	39%	33%	3.67
Subsidized Company Housing is a popular way of remunerating executives in our company	0%	9%	12%	30%	49%	4.18
Interest Free Mortgage is used in my company to motivate executives	3%	12%	6%	36%	42%	4.03
Bonus is used to compensate senior management	3%	6%	6%	42%	42%	4.15
Share options are used to compensate board members and senior management in my company	9%	15%	12%	27%	36%	3.67
Profit Share is popular way of remunerating executives in my company	6%	15%	0%	33%	46%	3.97
Senior management are provided with Life Insurance in our company	0%	9%	15%	27%	49%	4.15
Average Likert Mean						3.97

4.3.3 Ownership Structure

The third objective of the study was to establish the effect of ownership structure on performance of mobile and data services companies in Rwanda. Table 5 shows 78% of the respondents agreed that their company had institutional shareholding besides individual shareholders, 76% agreed that having a significant ownership of foreigners in the company can influence financial performance and 85% agreed that their company had a policy of the percentage of shareholding structure. Ninety seven percent agreed that the nature of shareholding was influenced by strategic performance related decisions and 73% agreed that there are plans to review and expand the

nature of ownership structure in the next five years with an objective to boost financial performance. The mean score for the responses was 4.02 which indicate that many employees agreed that ownership structure was a key driver of performance. The results revealed that ownership structure was a key determinant of performance at Telecommunications industry hence improved performance for the whole organization at large.

The findings agree with those in Jensen (2000) who asserted that institutional shareholders are seen as effective governance mechanism due to the fact that they normally hold substantial percentage of ownership, which gives them more clout in influencing the board in aligning management interest with those of the shareholder group. Large institutional shareholders, by virtue of holding large proportion of shares, have less incentive to simply exit a firm without affecting the share price.

The findings also agree with those in Ramly and Rashid (2010) who posits that in family-owned companies, the classic agency conflict between owners and managers is greatly alleviated due to less separation of ownership and control, which means lesser asymmetric information and greater alignment of owners-managers interest. In addition, larger family shareholder has greater incentives to monitor the manager because the family's wealth is closely related to firm welfare. Moreover, family owned-firms usually have longer investment horizons, which can help to mitigate the inclination of managers for myopic investment decisions.

Table 5: Ownership Structure

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Likert Mean
Our company has institutional shareholding besides individual shareholders	0%	18%	3%	42%	36%	3.97
Having a significant ownership of foreigners in the company can influence financial performance	0%	15%	9%	52%	24%	3.85
Our company has a policy of the percentage of shareholding structure	0%	6%	9%	33%	52%	4.3
The nature of shareholding is influenced by strategic performance related decisions	0%	0%	3%	64%	33%	4.3
There are plans to review and expand the nature of ownership structure in the next five years with an objective to boost financial performance	0%	15%	12%	64%	9%	3.67
Average Likert Mean						4.02

4.3.4 Legal Structure

Table 6 shows 73% of the respondents agreed that they have a legal affairs committee in the board, 76% agreed that the company has a full time company secretary who also sits in the board and 79% agreed that the company conducts annual legal audits with the aim of identifying legal exposures which may affect performance. Seventy two percent of the respondents agreed that the company was very keen on business matters that may lead into litigation because they can affect financial performance and 85% agreed that the company has a policy that prefers use of arbitrations and out of court settlements on legal matters. The mean score for the responses was 3.94 indicating that many employees agreed that legal structure were good in influencing performance at telecommunications industry. The findings agree with those in LaPorta et al. (2000) who underscore the importance of investor protection when they suggested that in many jurisdictions controlling shareholders have been known to expropriate minority shareholders' and creditors' wealth extensively. The findings also agree with those in Ramly and Rashid (2010) who posits that a strong investor protection accorded by a country's legal system provides greater security to the property rights of shareholders. Moreover, strong investor protection is associated with effective corporate governance, as reflected in valuable and broad financial markets, dispersed ownership of shares, and efficient allocation of capital across firms

Table 6: Legal Structure

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Likert Mean
We have a legal affairs committee in the board	0%	21%	6%	55%	18%	3.7
The company has a full time company secretary who also sits in the board	3%	18%	3%	30%	46%	3.97
The company conducts annual legal audits with the aim of identifying legal exposures which may affect performance	6%	12%	3%	49%	30%	3.85
The company is very keen on business matters that may lead into litigation because they can affect financial performance	0%	18%	9%	39%	33%	3.88
The company has a policy that prefers use of arbitrations and out of court settlements on legal matters	0%	6%	9%	33%	52%	4.3
Average Likert Mean						3.94

4.4 Inferential Statistics

In order to establish the statistical significance of the independent variables on the dependent variable (financial performance) regression analysis was employed. The regression equation took the following form.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;

Y = Profit before tax

X₁ = Financial disclosure

X₂ = Executive compensation

X₃ = Ownership structures

X₄ = Legal structure

ε = error term

In the model α is the constant term while the coefficient β_1 to β_4 are used to measure the sensitivity of the dependent variable (Y) to unit change in the explanatory variable (X₁, X₂, X₃, X₄). ε is the error term which captures the unexplained variations in the model.

Table 7 shows that the coefficient of determination also called the R square is 75.6%. This means that the combined effect of the predictor variables (Financial disclosure, Executive compensation, Ownership structures and Legal structure) explains 75% of the variations in financial performance of mobile and data services companies in Rwanda. The correlation coefficient of 86.9% indicates that the combined effect of the predictor variables have a strong and positive correlation with financial performance. This also meant that a change in the drivers of financial performance has a strong and a positive effect on firms profitability.

Table 7: Regression Model Fitness

Indicator	Coefficient
R	0.869
R Square	0.756
Std. Error of the Estimate	2135.666

Analysis of variance (ANOVA) on Table 8 shows that the combined effect financial disclosure, executive compensation, ownership structures and legal structure was statistically significant in explaining changes in performance. This is demonstrated by a p value of 0.000 which is less than the acceptance critical value of 0.05.

Table 8: ANOVA

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	3.95E+08	4	98775070	21.656	0.000
Residual	1.28E+08	28	4561070		
Total	5.23E+08	32			

Table 9 displays the regression coefficients of the independent variables. The results reveal that executive compensation and ownership structures are statistically significant in explaining profitability of mobile and data service companies in Rwanda. However financial disclosure and legal structure were not statistically significant in explaining profitability but they were positively related with financial performance of mobile and data service companies in Rwanda.

Table 9: Regression Coefficients

Variable	Beta	Std. Error	t	Sig.
Constant	4806.93	5462.908	0.88	0.386
Financial disclosure	717.106	4060.373	0.177	0.861
Executive compensation	11926.87	1599.597	7.456	0.000
Ownership structures	16993.48	2374.552	7.156	0.000
Legal structure	7846.692	4657.318	1.685	0.103

4.5 Summary of Key Results

The summary of the results are shown on Table 10 which indicate that executive compensation and ownership structures are key determinants of profitability of mobile and data service companies in Rwanda. However in general the employees agreed that all the variables of this study were important in forming and driving their company's performance.

Table 10: Summary of Key Coefficients

Variable	Mean Score	P value
Financial disclosure	3.83	0.861
Executive compensation	3.97	0.000
Ownership structures	4.02	0.000
Legal structure	3.94	0.103

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The study to establish and document the corporate governance practises and their relationship to performances' in the mobile and data services companies in Rwanda. A sample of thirty three (33) respondents was drawn from all the employees at mobile and data services companies in Rwanda. For purposes of collecting primary and secondary data, the researcher developed and administered a questionnaire and secondary data guide and the results obtained were analyzed using Microsoft Excel and Statistical Package for Social Sciences (SPSS). Study findings indicated that (61%) of the respondents was male and 39% were female. The findings imply that the telecommunication industry is a male dominated field. A majority of 55% of the respondents had been in service for a period of between 5 years and below and 45% indicated between 6-10 years. The findings imply that the employees had been in the telecommunication industry for more than three years therefore able to understand the corporate governance practices practiced in the organization. Results also indicated that 30% of the respondents were at supervisory level, 27% indicated middle management while 24% indicated senior management and 18% indicated they were board members. The findings imply that all the respondents were in management positions hence they had knowledge about corporate governance practices hence accurate responses for the study.

The first objective was to explore whether financial disclosure influenced company's performance. The results revealed financial disclosure was a key determinant of company's

performance or profitability. This was demonstrated by the mean score of responses of the respondents. However financial disclosure was found not to be statistically significant in influencing profitability.

The second objective was to establish whether executive compensation influenced company's profitability. Results showed that executive compensation influenced profitability as this was demonstrated by the mean score of the responses and the regression. The correlation between executive compensation and profitability was also found to be strong and positive.

The third objective of the study was to explore the influence of ownership structures on company's profitability. The study findings showed that ownership structures were a key ingredient of company's performance. Ownership structures were found to be statistically significant.

The fourth and final objective was to find out whether legal structure influenced company's profitability. It was found that legal structure was important to firm's profitability but was not statistically significant.

5.2 Conclusions

Following the study findings it is possible to conclude that financial disclosure was a key determinant of company's performance or profitability. This kind of finding is a familiar as it has been supported by other scholars and hence highlighting the intensity of financial transparency and disclosure in driving companies performance. Executive compensation was found to influence profitability. Executive compensation is therefore important for the employees get motivated through remunerations and hence improve their performance in furtherance the profitability of the company. The extended bonuses given to the employees have overwhelmingly motivation hence bonus could be used to direct the energies of employees towards to desire company targets. Ownership structures were found to be effective in driving company's profitability. It can be concluded that the companies had put in place management policies that ensured that the companies had objectives, goals and a mission.

Legal structure though not statistically significant, the employees overwhelmingly agreed with it positive effect on performance. It can therefore be concluded that the companies had a legal affairs committee in the board and the company also conducted annual legal audits to identify legal exposures which may affect performance.

5.3 Recommendations for Policy and Practice

The study recommends that the management should practice financial transparency by ensuring that the company follows international financial report standards and guidelines in making the annual reports and ensure that they release quarterly performance reports to the public and their business partners. This is to enhance that the company's shares the correct and right information with the public for them to make right choices when choosing the company to get services from.

The study also recommends that the effectiveness of the board is very essential in today's competitive environment for increases firm value. To achieve this, the study recommends that the current board be evaluated to rate its effectiveness for enhanced quality value and should be well remunerated. It is also recommended that the firm should have well structured ownership

structures in their companies. The study recommends that the firm should non-executive directors who act as –professional referees‖ to ensure that competition among insiders stimulates actions consistent with shareholder value maximization. On the same note, the study recommends that non-executive directors/ foreign ownership be handled with care for their participation is significant. Non-executive directors/ foreign ownership should be designed to enhance the ability of the firm to protect itself against threats from the environment and align the firm's resources for greater advantage.

The study recommends that the company should have a legal structure in place to ensure that all the legal battles are sorted out of court. This study recommends that there is need for the company to access the characteristics of the board for it has a material impact on the quality of corporate governance. This will help in the realization of challenges or other hindrances that may hinder the functionality of the board and hence the company performance.

5.4 Suggested Areas for Further Research

The study suggests that future areas of study should be on how Pestel factors affect the company's performance. This factor include; Political, Economical, Social and Technological.

Arising from the findings and the gaps in the study a replica study is recommended in another industry in order to test whether the conclusions of this study will hold true. Another study could be carried out to include other potential drivers of corporate governance practices like, board characteristics (CEO duality, board effectiveness and board quality) on the financial performance of firms.

REFERENCES

- Adams, R., & Mehran, H. (2003). Is corporate governance different for bank holding companies? *Econ. Policy Rev.*, 9: 123-142.
- Ashbaugh, H., Collins, D.S., & Fond, R. (2004). Corporate governance and cost of equity capital. Working Paper. University of Wisconsin-Madison, University of Iowa and Massachusetts Institute of Technology.
- Bauer, R., Frijns, B., Otten, R., & Tourani-Rad, A. (2008). The Impact of Corporate Governance on Corporate Performance: Evidence from Japan. *Pacific-Basin Finance Journal*. 16 (June): 236-251.
- Bauer, R., Gunster, N., & Otten, R. (2004). Empirical Evidence on Corporate Governance in Europe: the Effect on Stock Returns, Firm Value and Performance. *Journal of Asset Management*. 5: 91-104.
- Belkhir, M. (2009a). Board structure, ownership structure and firm performance: evidence from banking. *Appl. Finance. Econ.*, 19(19): 1581-1593.
- Belkhir, M. (2009b). Board of directors' size and performance in the banking industry. *Int. J. Managerial Finance*. 5 (2): 201-221

- Bohren, O., & Odegaard, B. (2003). Governance and Performance Revisited. *Working Paper No. 28/2003. European Corporate Governance Institution.*
- Botosan, C.A., & Plumlee, M. (2002). A re-examination of disclosure level and the expected cost of equity capital. *J. Acc. Res.*, 40(1): 21 – 40.
- Botosan, C.A., & Plumlee, M.A. (2005). Assessing alternative proxies for the expected risk premium. *Acc. Rev.*, 80(1): 21-53.
- Brown, L.D., & Caylor, M.L. (2006). Corporate governance and firm valuation. *J. Acc. Pub. Pol.*, 25: 409 -434.
- Burns, N., & Grove, K. (2003). Understanding nursing research (3rd ed.). *Philadelphia: W.B. Saunders Company.*
- Cadbury, A. (1992). Report of the Committee on the Financial Aspects of Corporate Governance. *London: Gee & Co.*
- Drobetz, W., Scillhofer, A., & Zimmermann, H. (2004). Corporate Governance and Expected Stock Returns: Evidence From Germany. *European Financial Management*. 10 (2): 267-293.
- Freeman, R. E. (1984). *Strategic Management: a Stakeholder Approach.* Boston: Pitman.
- Freeman, R. E., Wicks, A. C., & Parmar, B. (2004). *Stakeholder Theory and the Corporate Objective Revisited.* *Organization Science*. 15(May-June): 364-369.
- Friedman, E., Johnson, S., & Mitton, T. (2003). Propping and tunnelling. *Journal of Comparative Economics*. 31 (June): 732–750.
- Greenbury, R. (2002). The Greenbury Report, Chairman's Preface. Retrieved from www.ecgi.org/codes/countryKingReport2002-SarbancesOyleywww.ecgi.org/codes/countryat9.210
- Jensen, M. C. (1986). Agency Costs of Free Cash Flow, Corp. Finance and Take overs. *American Economic Review*. 76 (May): 323-329.
- Jensen, M. C. (1993). The Modern Industrial Revolution, Exit, and the Failure of Internal Control Systems. *Journal of Finance*. 48 (July): 831-880.
- Jensen, M.C., & Meckling, W. H. (1976). Theory of the Firm: Managerial Behavior. Agency Costs and Ownership Structure. *Journal of Finance Economics*. 3 (October): 305-360.
- Kothari, C. (2004). Research Methodology: Methods & Techniques, 2nd edition. *New age International Publishers, New Delhi, India.*

- Kulzick, R. (2004). Sarbanes-Oxley: Effects on Financial Transparency. *SAM Advanced Management Journal*, pp.43-49.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A., and Vishny, R.W. (2000). Investor Protection and corporate governance. *J. Financ. Econ.*, 58: 3-27.
- Lavrakas, P. (2008). Encyclopedia of Survey Research Methods, Vol. 1 & 2. *Sage Publications*, Los Angeles, United States of America.
- Linck, J.S., Netter, J.M., & Yang, T. (2008). The determinants of board structure. *J. Financ. Econ.*, 87(2): 308-341.
- Lipton, M., & Lorsch, J.W. (1992). A Modest Proposal for Improved Corporate Governance. *Business Lawyer*, 48: 59-77.
- Mugenda, O., & Mugenda, A. (2003). Research methods quantitative and qualitative Approaches. *Nairobi Acts press*.