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Influence of Ethical Integrity Practices on Corporate Governance Performance in Public Institutions in Rwanda

Usengumuryemi Jean Marie Vianney
Student, Department of Leadership and Governance,
Jomo Kenyatta University of Agriculture and Technology, Kenya
Mike A. Iravo
Senior Lecturer, Department of Leadership and Governance
Jomo Kenyatta University of Agriculture and Technology, Kenya
Gregory Namusonge
Dean, Department of Leadership and Governance,
Jomo Kenyatta University of Agriculture and Technology, Kenya

Abstract:
Public institutions in Rwanda places high importance on ethical behavior and practices within the organization. The purpose of this study was to analyze the influence of Ethical Integrity practices on corporate governance performance in public institutions in Rwanda. The study adopted a descriptive and explorative design since its main purpose was to explain the of Ethical Integrity practices on corporate governance performance in public institutions in Rwanda. The target population for the study was 214 managers from 10 public institutions in Rwanda. Stratified random sampling technique was used to get a sample of 140 respondents who were selected from the top management and middle managers staff. Data for the study was collected by use of questionnaires, interviews and observation using descriptive and inferential statistics to establish the relationship between the dependent and independent variables. It was expected that the results of the study would assist the top management of the institutions, as well as other stakeholders, to understand the effect of board leadership practices on governance performance in public institutions in Rwanda. Data collected was analyzed through SPSS version 21. Data analysis involved statistical computations for averages, percentages, and correlation and regression analysis. Ordinary least squares (OLS) regression method of analysis was adopted to determine the inferential statistics. The coefficients obtained indicate that the correlation coefficient (R) between the independent variable (Ethical integrity practices) and the corporate governance performance was 0.663 which is a positive correlation relationship. Table 4.25 shows a coefficient of determination (R^2) of 0.44, which means that this variable alone can explain up to 44.0% of the variations in the dependent variable, corporate governance performance in public institutions in Rwanda. This implied that there exists a positive significant relationship between Ethical integrity practices and corporate governance performance. The findings further confirm that the regression model of Ethical integrity practices on corporate governance performance is significant for the data F = 119.214, p<0.01) since p-values was 0.00 which is less than 0.05. The hypothesis was tested by using multiple linear regressions and determined using p-value. The acceptance/rejection criterion was that, if the p value is less than 0.05, we reject the H_{A2} but if it is more than 0.05, the H_{A2} is not rejected. Therefore, the alternate hypothesis is that there is significant influence between Ethical integrity practices on corporate governance performance public institutions in Rwanda. The findings created a path for useful recommendations to enhance corporate governance, in particular the Ownership Structure category, through adopting expedient ethical practices. The findings confirm that there is a statistically significant influence of ethical integrity practices and corporate governance performance in public institutions in Rwanda. The study concludes that Ethical integrity practices has been effective in determining corporate governance performance in public institutions in Rwanda. The study examined the influence of Ethical integrity practices on corporate governance performance in public institutions in Rwanda, the dependent variable corporate governance performance and the independent variable Ethical integrity practices, there are other mediating or intervening factors that can affect corporate governance performance that could be researched further for example type of leadership. Therefore, future studies can introduce other moderating or an intervening variable in their models.

Keywords: *Corporate governance performance, ethical integrity practices, public institutions in Rwanda*

1. Introduction

In today's globalized world, with organizations coping with rapidly changing environments, leaders are faced with a new reality. Working in flexible contexts and connected by real-time electronic communication, increasingly mobile employees have themselves become the critical resource of their organizations (Shahmandi, *et, al.* 2011). Dissatisfaction with corporate entities' governance has increased in recent years with concerns of poor performance. This has led to collapse of many giant corporate entities. When this happens, the better part of blame goes to the board of directors and indeed the trend has been to suspend or fire the entire board while sparing the management (Dobs, & Hamilton, 2009).

This dissatisfaction has led to the emergence of large institutional investors seeking controlling shareholding in most of the listed corporate entities. Various tools have been applied to ease the problem of corporate failures including giving top managers heavily packaged incentives. Integrity challenges have continued to rock corporate entities with boards of directors being hired and fired without much avail (Charan, 2015).

Kleining (1999) observes that despite certain congruities and convergences, there are some very important differences in the character and content of ethical and legal requirements which can help us understand why ethics is accorded a normative primacy in practical affairs and legality is to be judged by reference to ethics (not vice versa).

Major corporate scandals happened because of a lack of adherence to good corporate governance structures. The lack of corporate governance was at the root of the financial crisis that took the world by storm, rendering global instability (United States Financial Crisis Report, 2011). According to Othman & Abdul Rahman (2011) and Arjoon (2005), companies lack moral compasses for good governance, thus plaguing society at large—including shareholders and stakeholders— and causing a deterioration in governance systems worldwide. Therefore, it is important to examine corporate governance from a moral stance. Delving into ethics and moral principles is essential to creating a culture of ethics in a business environment that is sure to guarantee a system for effective corporate governance

1.1. Statement of the Problem

The importance of good corporate governance in the 21st century cannot be overemphasized. Thisera (2013) argued that with globalization rapidly increasing the scale of trade and the size and complexity of corporations and the bureaucracies constructed to attempt to control it, the importance of corporate governance and internal regulation has been amplified as it becomes increasingly difficult to regulate externally back on the policy agenda and intensified debate on the efficacy of board composition as a means of increasing corporate financial performance. Geneen (2008) in a study found that among the board of directors of fortune 500 companies, 95% are not doing what they are legally, morally, and ethically supposed to do. It is criticized that (1) the board is a rubber stamp, (2) the board is dominated by CEO, and (3) the board is plagued with the conflicts of interests (Schein, 2008); board responds to the wishes of a controlling shareholders (Jesover & Krikpatrick, 2015). An important question of who will monitor the monitors thus arises. Although it is argued that the shareholders will monitor the board by exercising their ownership right by appointing and removing board members, shareholders may not be aware of the inside activities of the firm due to information asymmetry.

Previous study has several literature gaps that are filled by this study. Most of the study has concentrated on the relationship between ethical and integrity issues and financial performance. There is therefore clear evidence that the relationship between board composition as a determinant of corporate governance performance have not been studied simultaneously. Therefore, this study sought to fill this gap by critically evaluating effect of board composition practices on corporate governance performance in public institutions in Rwanda by answering the research question: Does ethical and integrity practices have any influence on corporate governance performance in public institutions in Rwanda?

2. Theoretical Perspective

This paper discusses the Stakeholder Theory upon which the study is anchored

2.1. Stakeholder Theory

This theory is an annex of the agency view which anticipates the agents (managers) to take care of the welfare of the principals (shareholders). Nevertheless, this tapered focus on shareholders has undergone a variation and boards are now supposed to take into consideration the interests of many other stakeholder groups (Freeman et.al 2004).

The debate among scholars is whether to take a broad or narrow focus on stakeholders. (Freeman et.al 2004), proposed a comprehensive view whilst Bathula (2008) offers a narrow view suggesting voluntary stakeholders shoulder some form of risk. Despite its appeal, the stakeholder theory of variety proposed by Jensen (2001) has not been exposed to much empirical evaluation. At least two factors might have contributed to the gap between theory and evidence. The first concerns the prevalence of externalities and monopoly situation. The second is the problem of measurement, especially in view of the problems associated with getting an accurate measure of the long-term value of the firm.

Stakeholder theory therefore proposes that the prominence of managerial activity should be on the growth and maintenance of all stakeholder relationships, not just that with shareholders. (Jensen, 2001). With the board legal and ethical integrity issues one has to consider stakeholders being involved hence stakeholder's theory.

2.2 Conceptual Framework

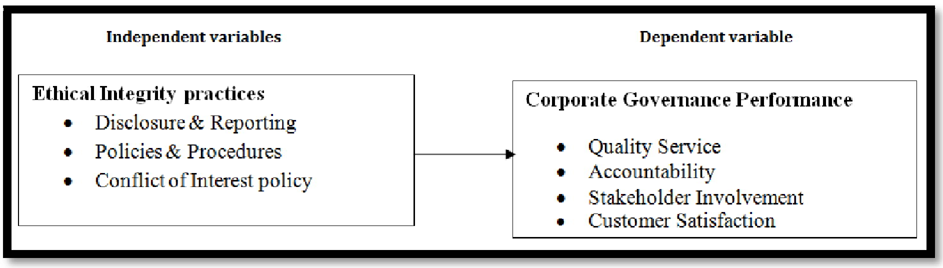

Figure 1: Conceptual Framework

3. Research Methodology

The study used a cross-sectional survey research design. Cross-sectional surveys involve data collection from a population, or a representative subset, at one specific point in time and have an advantage over other research designs that only seek individuals with a specific characteristic, with a sample, often a tiny minority, of the rest of the population (Kothari, 2011).

A sample size of 195 respondents was determined from a total population of 378 individuals using the formula by Yamane (1967).

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

Where n = the desired sample size

e= probability of error (i.e. the desired precision e.g. 0.05for95%confidence level)

N=the estimate of the population size.

$$n = \frac{378}{1 + 378\,(0.05)^2} = 195$$

Primary data was collected using structured questionnaires which had both close ended and open-ended questionnaires. Structured questionnaires refer to questions which are accompanied by a list of all possible alternatives from which the respondents select the answer that best describe their situation (Mugenda & Mugenda, 2009). Structured questions are easier to analyze since they are in the immediate usable form (Orodho, 2008). The questionnaires were self-administered. The researcher informed the respondents that the instruments being administered was for research purpose only and the response from the respondents were kept confidential. The researcher obtained an introductory letter from the University in order to collect data from the field and then delivered the questionnaires to the respondents with the help of a research assistant using the drop and pick later method.

4. Analysis for Ethical Integrity Practices

Regression analysis was performed in order to determine whether the independent variable, Ethical practices could be reliable for explaining the change in the dependent variable, corporate governance performance public institutions in Rwanda. The coefficients obtained indicate that the correlation coefficient (R) between the independent variable (Ethical integrity practices) and the corporate governance performance was 0.663 which is a positive correlation relationship. Table 1 shows a coefficient of determination (R^2) of 0.44, which means that this variable alone can explain up to 44.0% of the variations in the dependent variable, corporate governance performance in public institutions in Rwanda. This implied that there exists a positive significant relationship between Ethical integrity practices and corporate governance performance.

The Analysis of Variance (ANOVA) results are shown in Table 2 The findings further confirm that the regression model of Ethical integrity practices on corporate governance performance is significant for the data F = 119.214, p<0.01) since p-values was 0.00 which is less than 0.05

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	34.528	1	34.528	119.214	.000[a]
	Residual	44.023	82	0.29		
	Total	78.551	83			

Table 2: ANOVA for Ethical Integrity Practices
a. Dependent Variable: Corporate Governance Performance
b. Predictors: (Constant), Ethical Integrity Practices

The coefficients of Ethical practices are presented in Table 3 which indicate that the model has a significant p-value =.000. The study at 95% confidence interval solved the second research question by indicating that the variable Ethical practices is statistically significant in the corporate governance performance public institutions in Rwanda.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.171	.267		4.837	.000
	Ethical integrity practices(X1)	.766	.070	.663	10.919	.000

Table 1: Coefficients of Ethical Integrity Practices
a. Dependent Variable: Corporate Governance Performance

Using the summary of Coefficients presented in Table 3, a linear regression model of the form, $Y = \alpha + \beta X_i$ can be fitted as follows:
$Y = 1.171+0.766X1$...Equation 1
This implied that a unit change in Ethical practices would increase corporate governance performance by the rate of 0.766.

4.1. Hypothesis Testing for Ethical Integrity Practices

- Ho2: There is no significant influence between legal Ethical practices on corporate governance performance public institutions in Rwanda.

The hypothesis was tested by using multiple linear regressions and determined using p-value. The acceptance/rejection criterion was that, if the p value is less than 0.05, we reject the H_{A2} but if it is more than 0.05, the H_{A2} is not rejected. Therefore, the alternate hypothesis is that there is significant influence between Ethical integrity practices on corporate governance performance public institutions in Rwanda. Results in Table 4.38 shows that the p-value was 0.00. This was supported by a calculated t-statistic of 3.616 that is larger than the critical t-statistic of 1.96. The alternative hypothesis was therefore not rejected. The study therefore adopted the alternative hypothesis there is significant influence between Ethical integrity practices on corporate governance performance public institutions in Rwanda.

5. Conclusion on Ethical Integrity Practices

The findings confirm that there is a statistically significant influence of Ethical integrity practices and corporate governance performance in public institutions in Rwanda. A positive increase in Ethical integrity practices leads to an increase in corporate governance performance in the public institutions in Rwanda. It can be concluded from this study that Ethical integrity practices were statistically significant in explaining corporate governance performance in public institutions in Rwanda. The study concludes that Ethical integrity practices has been effective in determining corporate governance performance in public institutions in Rwanda.

5.1. Recommendations

Ethics and the moral values are considered the most important factors of the organization. Ethical leadership has an influence on employee performance. Hence, a primary contribution of this study is that efforts in promoting ethical leadership practices in the corporate governance performance in public institutions in Rwanda must start and be perceptible at the top of the organization. Another important contribution of this study is that employee may not play the so commonly thought important roles in behaving ethically in their work places, for this reason, ethical leaders endowed with the mind of behaving ethically may be needed in a greater extent to make a difference in employee performance. Indeed, an important aspect of the organization's poor performance that must be obviated hinges on the promotion of the practices of ethical leadership.

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