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

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT FOR THE REQUIREMENT OF THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

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DECLARATION

This research project is my original work and has not been submitted for the award of a degree in any other university.

Signed: …………..……………………………….. Date: …………………………

Edgar Opata **Reg No: D61/P/7150/2005**

The project has been submitted for examination with my approval as university supervisor.

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DEDICATION

This research project is dedicated to my wife for her love and my parents for their passion on education and showing me the way to school when I least knew myself.

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According to William Arthur Ward, feeling gratitude and not expressing it is like wrapping a present and not giving it. Apart from my efforts, the success of this project depends largely on the encouragement and guidelines of many others. I take this opportunity to express my gratitude to the people who have been instrumental in the successful completion of this research project

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ABBREVIATIONSAND ACCRONYMS

ANOVA	Analysis of Variance
BOD	Board of Directors
CEO	Chief Executive Officer
COEC	Cost of Equity Capital
GSM	Global System for Mobile
OECD	Organization for Economic Cooperation and Development
RURA	Rwanda Utility Regulatory Agency
SPSS	Statistical Package for Social Sciences

ABSTRACT

The purpose of this study is to establish and document the corporate governance practises and their relationship to performances' in the mobile and data services companiesin Rwanda. In specific terms the study reviews whether financialdisclosure, executivecompensation, ownershipstructures and legalstructure have any effect or influence on performance of companies. This study employed descriptive survey design. 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 ofthe responses for the various questions posed to the respondents. The data was then analyzed in terms of descriptive statistics like means and percentages. Thestudy findings revealed that 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 also showed that executive compensation influenced profitability as this was revealedby the mean score of the responses and the regression. The study findings further establishedthat ownership structures were a key ingredient of company's performance. Ownership structures were found to be statistically significant.Finally, it was found that legal structure was important to firm's profitability but was not statistically significant. Following the study findings it is possible to conclude that financial disclosure and executive compensation isa key determinant of company's performance or profitability. Executive compensation is therefore important because employees get motivated through remunerations and hence improve their performance in furtherance of the profitability of the company. It can be concluded that the companies had put in place management policies that ensured that the companies had objectives, goals and a mission. The study recommends that the management should practice financial transparency by ensuring that the companies follow international financial reporting 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. To achieve this, the study recommends that the current board composition be evaluated to rate its effectiveness for enhanced quality value and should be well remunerated. The study recommends that the companies should have a legal structure in place to ensure that legal tussles are resolved out of court. This study recommends that there is need for the companies to assess 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 by extension the company performance.

CHAPTER ONE

INTRODUCTION

1.1 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 polices, 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.

1.1.1 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.

1.1.2 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).

1.1.3 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 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.

1.1.4 Telecommunication Industry in Rwanda

Rwanda’s history of mobile telecommunication companies was pioneered by MTN Rwandacell 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.

1.2 ResearchProblem

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 Rwandatelecommunication 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. Drobetz Schillhofer 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?

1.3 Research Objectives

The studyobjective was toestablish and document the corporate governance practises and their relationship to performances' in the mobile and data services companiesin Rwanda.

1.4 Value of the Study

Thestudy establishedwhich of the theories namely stakeholders, agency or resources dependence has more relevance in Rwanda telecommunication sector and applicable to the wider developing countries context. The study determined whether in light of the global economic crisis there has been a shift towards the stakeholders theory mostly used in Germany and Japan as compared to the agency theory which has been the prominent theory primarily focusing on shareholders protection which emanated from UK and US. To the society, the study can be a stimulant for stakeholders interested in enhancing their role in corporate governance.

The agency theory was established to be the most widely applied. 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 , the shareholders had almost all the way as regards decision making which was geared towards maximizing shareholders wealth. All the responses regarding executive remuneration showed a tendency to link pay to performance in terms of shareholders wealth.

The stakeholder's theory though widely promoted by the government has not taken hold of the market due to the fact that all attention is geared towards maximization of profits.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.

The study established the need to test resource dependent theory in the market to increase its comprehension through various research project and also test it's applicability in the African context. Furthermore the correlation between various factors mentioned in the theory needs to be established, namely overall importance of the resource, scarcity of the resource and the existing competition between the firms in the industries for the resources. Further research in this area will guide policy and decision makers.

To scholars, researchers and students, excerpts of this study can be published in journals and other public domain media and add value to their knowledge on corporate governance and can be used as a guide in developing or improving on existing policies.

In addition, Government can benefit from this study by incorporating the various policy recommendations and implications into policy making process. This study is also very useful for the government institution since it can unveil the potential threat of destabilization of economy due to financial obligation that carry with them.

This study provides an insight into the current corporate governance practices and performance in the industry to stimulate research. To the academicians, this study can be used to improve the understanding of corporate governance in the Rwanda private sector and serve as a reference of governance at this point of time. It can also trigger a replica study in future. To the companies the study can identify gaps in their corporate governance practices for their improvement.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature in the area of corporate governance practices and performance. It starts by reviewing the model advanced in the area of corporate governance. The following section looked at theoretical review followed by the empirical literature advanced in the field of corporate governance.

2.2 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.

2.2.1 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 holdersa 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). Jensen's and Meckling's (1976) model shows that agency problems exist, when there are possibilities and incentives for the management to pursue their own interest at theoutside stakeholders' (both equity and bondholders) expense

.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. Jensen and Meckling (1976, p. 311) clarify that the term 'monitoring' is comprehensive as it includes controls, such as setting budget restrictions and operating rules, beyond merely observing and measuring the agent's performance.

In addition to monitoring efforts, agency costs can be mitigated through bonding efforts by the manager (Jensen and Meckling, 1976).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. 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, Jensen and Meckling(1976) defined residual loss as the dollar equivalent of loss in expected utility experience by the principal which represent a trade-off between overly constraining management and enforcing contractual mechanisms designed to reduce agency problems.

2.2.2 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. An organization can manipulate its environment addressing three challenges Cho and Gillespie (2006).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.

2.2.3 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 narrows 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 and Preston, 1995; Freeman, Wicks and 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. The identification of stakeholders groups is currently among the central debates in the scholarly,Mitchell, Agle and Wood (1997)

Likewise, Freeman (1984), one of the original proponents of stakeholder theory, defines stakeholder as “any group or individual who can affect or is affected by the achievement of the organization’s objectives.” There is considerable debate among scholars on whether to take a broad or narrow view of a firm’s stakeholder.

Freeman’s definition (1984), cited above, proposes a broad view of stakeholders covering a large number of entities, and includes almost all types of stakeholders. In contrast, Clarkson (1994) offers a narrow view, suggesting that “voluntary stakeholders bear some form of risk as a result of having invested some form of capital, human or financial, or something of value, in a firm. Involuntary stakeholders are placed at risk as a result of a firm’s activities. But without the element of risk there is no stake.”

The use of risk enables stakeholders a legitimate claim on a firm’s decision making, regardless of their power to influence the firm. Donaldson and Preston (1995) identify stakeholders as “persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity.” For Example, Wheeler and Sillanpaa (1997) suggested that stakeholders are as varied as investors, managers, employees, customers, business partners.

Mitchell, Agle and Wood (1997) argue that stakeholders can be identified by the possession of one, two, or all three of the following attributes: power to influence the firm, the legitimacy of relationship with the firm, and the urgency of their claim on the firm. This typology allows managers to pay attention and respond to various stakeholder types.

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.

Donaldson and Preston (1995) examined stakeholder perspective from nonfinancial outcomes. For example, while shareholders generally define value in financial terms, others stakeholders may seek benefits such as the satisfaction of pioneering a particular breakthrough, supporting a particular kind of corporate behavior or, where the owner is also the operator, working in a particular way.

This means that stakeholders have non-equity stakes which require management to develop and maintain all stakeholder relationships, and not just of shareholders. According to the stakeholder view of the firm, Donaldson and Preston(1995), a company can last overtime if it builds and maintain sustainable and durable relationships with all members of its stakeholders network.

Nonetheless, many firms do strive to maximize shareholder value while, at the same time, trying to take into account the interest of the other stakeholders. Sundaram and Inkpen (2004) argue that the objective of shareholder value maximization matters because it is the only objective that leads to decisions that enhance outcomes for all stakeholders. They argue that identifying a myriad of stakeholders and their core values is an unrealistic task for managers (Sundaram and Inkpen, 2004).

Proponents of the stakeholder perspective also argue that shareholder value maximization will lead to expropriation of value from non-shareholders to shareholders. However, Freeman et al. (2004) focus on two core questions: "What is the purpose of the firm?" and "What responsibility does management have to stakeholders?"

They posit that both these questions are interrelated and that managers must develop relationships, inspire their stakeholders, and create communities where everyone strives to give their best to deliver the value the firm promises. Thus stakeholder theory is considered to better equip managers to articulate and foster the shared purpose of their firm, Donaldson and Preston (1995).

2.3 Models of Codes of Best Practices

This section explores models that have been used as a benchmark for best practice.The OECD (1999, (2004),Principlesof Corporate governancehave 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, OECD (1999, (2004).

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 1994report, 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 or stakeholders. Freeman (1984) defines stakeholder as "any group or individual who can affect or is affected by the achievement of the organization's objectives."

2.4 Empirical Literature

This section explores actual empirical studies advanced in the field of corporate governance practices and performances with specific focus on the principles and practices that are necessary for effective corporate good corporate government practices and performances.

2.4.1 FinancialTransparency and Disclosure

Transparency and information disclosures are keys to effective shareholder control and protection(Kulzick, 2004). 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).

2.4.2 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 (Johnsonet 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).

2.4.3 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 agencyProblems 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 opportunisticbehaviors and focus on value maximization activities (Ramly& Rashid, 2010).

2.4.4 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, Jensen and Meckling (1976). 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,Jensen and Meckling (1976). 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 maximizationactivities(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(Ramly& Rashid, 2010).

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).

Finally, the government can be a very significant owner of public corporations in some countries. Firms with government as a controlling shareholder are more prevalent in developing countries where the governments through its investment arms invest state funds in public firms, Atkinson and Stigliz, (1980).

Government that typically owns higher proportion of ownership interest in public firms might be more concerned with value creation activities than individual shareholders. The government also has greater incentive to monitor and financially able to engage experts like investment analysts to scrutinize firm's performance than other non-government shareholders (Ramly& Rashid, 2010).

2.4.5 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. Jensen and Meckling(1976), emphasizes the importance stating that the view of the firm points to the important role which legal system and the law play in social organizations especially organization of economic activity.

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)

2.4.6 Corporate Governance and the Cost of Equity Capital

In the U.S.A context, Ashbaugh et al. (2004) document the effect of corporate governance on the cost of equity capital (COEC) of U.S. firms by linking governance attributes to firm's expected returns, beta and realized returns.

The governance attributes used in this research were related to quality of firms' financial information, ownership structure, shareholder rights, and board structure. These mechanisms are intended to reduce moral hazard and adverse selection problems present in public listed companies.As noted by Kulzick, (2004), Transparency and information disclosures are keys to effective shareholder control and protection.

They use two measures of COEC: The target method using the average firm's expected return over its fiscal period as employed in Botosan and Plumlee (2002, 2005) and Francis et al. (2005), the price-earnings growth ratio as developed in Easton (2004). A composite CG score for each firm is constructed to capture a firm's overall governance risk. Overall, they find that the governance attributes significantly affect firm's cost of equity capital (COEC) directly, as well as indirectly via systematic risk, since most of the CG attributes are significantly associatedwithβ.

2.4.7 Corporate Governance and Cost of Debt

In the French context, Piot and Missonier-Piera (2007) report that CG quality and auditing structure of public firms have a significant reducing effect on the cost of debt. In this study, CG quality is represented by the ratio of independent directors on the board, the existence of a compensation committee composed of non-executive directors, and the presence of institutional shareholders with more than 5% of ownership.

.Thisview is further supported by the argument that the riskprofile determines the required return by debt holders,which in turn is the firm's COD. Prior studies (Sengupta,1998; Francis et al., 2005) discover that when defaultsrisk is high so as the COD, they basically replicate,Sengupta (1998) research model discovers thatcorporate governance is negatively related to COD.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides details about the methodology adopted to assist in achieving the research objectives. According to Newing (2011), a research methodology is concerned with what you will actually do in order to address the specific objectives and research questions you have developed. This chapter covers research design incorporating type of research, target population, data collection and analysis tools.

3.2 Research Design

The cross sectional survey research design will be applied. A Descriptive research will be utilized in the cross sectional survey, this will involve describing data and characteristics about the population or phenomenon being studied. The study intends to use this descriptive survey design to identify whether there is any empirical proof that can support the research hypotheses.

According to Lavrakas (2008), a research design is a general plan or strategy for conducting a research study to examine specific testable research questions of interest. Yang and Miller (2008) states that the phrase ‘‘research design’’ denotes both a process and a product aimed at facilitating the construction of sound arguments.

This will be followed by a hypothesis testing analysis whereby the statistical significance of the effects of the various independent variables on the dependent variables will be tested.

3.3 Target Population

Burns and Grove (2003) describe population as all the elements that meet the criteria for inclusion in a study. A population refers to an entire group of individuals, events or objects having a common observable characteristic. Hence it's an aggregate of all that conforms to a given specification (Mugenda & Mugenda, 2003).

The target population of the study was the licensed and active internet service provider in Rwanda as listed in the Rwanda Utilities Regulatory Agencydata base as at 31st December 2012.

3.4 Data Collection

This study used both primary and secondary tools of data collection. A questionnaire was the primary tool for collecting data. Target statements were used in the questionnaires which were based on ordinal scale for measurement purpose (where data is ranked in the sense that higher numbers represent higher values) with summated scale as its scaling technique.

The questionnaires were used to collect primary data. The study also used secondary data sources to gather information relevant in reaching at the research objectives. Secondary data was collected from the Rwanda Utilities Regulatory Agencydata base as at 31st December 2012, annual reports and publications. Data collection sheet was used to collect and organize secondary data.

The questionnaire was tested for content (face) validity before it was administered. In this vein, two senior staffs (of managerial status in their company) were requested to assess the questionnaire for adequate coverage of relevant dimensions of the research objectives. After their suggestions, the final questionnaire, which was applied for this study consists of questions that are not categorized explicitly into sections.

The study carried out a pilot test to check the validity and reliability of the questionnaires in gathering the data required for purposes of the study. The advantages of conducting the pilot test include enhancing the training of field staff, review of the instrument, prevention of wasteful expenditures on a full blown survey whose results may not be applicable. The advantages outweigh the disadvantages of costs and the attendant possibility of redesign of both the survey and instrument (Schewarz and Sudman, 1995).

3.5 Data Analysis

Both quantitative and qualitative techniques were used to analyze the data. The data from the questionnaires was coded and the responses on each item put into specific main themes. Burns and grove (2003) define data analysis as a mechanism for reducing and organizing data to produce findings that require interpretation by the researcher. De Vos (2002) goes ahead and describes data analysis as a challenging and creative process characterized by an intimate relationship of the researcher with the participants and data generated. According to Hyndman (2008), data processing involves translating the answers on a questionnaire into a form that can be manipulated to produce statistics

Qualitative approach in terms of descriptive statistics was used to describe the present and analyze the data. Descriptive studies enable one to document the nature of existing variable, how they change overtime. It provides a basis for classifying data and allows for further questions, since data is recorded in the narrative. Descriptive statistics and qualitative findings are often presented together Mercurio (1979).

Qualitative data analysis method were used to analyze qualitative data gathered using the open-end questionnaires. The process entailed the following; gathering of all the questionnaires issued to respondents, checking for completeness on questionnaires, entering coded numerical data in templates so as to calculate the response percentages, mean and variance and checking data for errors.

The multiple regression model was used so as to develop an equation showing how the variables are related. Using multiple linear regression equation of the following form was developed:

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

Where;

Y = Profit before tax

X_1 = Financialdisclosure

X_2 = Executivecompensation

X_3 = Ownershipstructures

X_4= Legalstructure

ε= error term

In the model *a* is the constant term while the coefficient β_1 to $\beta_7$are used to measure the sensitivity of the dependent variable (Y) to unit change in the explanatory variable (X_1, X_2, $X_{3,}$ X_4). $\varepsilon$is the error term which captures the unexplained variations in the model.

The Statistical Package for Social Sciences (SPSS) computer software was used to present descriptive statistic inform of pie charts, tables and bar charts.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

In this chapter, the data collected during the research was analyzed and reported. This study was executed to achieve the stated objectives. The objective of the study is toestablish and document the corporate governance practises and their relationship to performances' in the mobile and data services companiesin Rwanda. The descriptive statistics were presented first followed by the model results. The interpretation and discussion of the results are presented in a separate section. The chapter summary is also given.

4.2 Descriptive Results

This section presents the descriptive results. The results are presented using frequency tables.

4.2.1 Gender of the Respondents

The study sought to establish the gender distribution of the respondents. Table 4.1 shows that a majority (61%) of the respondents was male and 39% were female. The findings imply that the telecommunication industry is a male dominated field.

Table 4.1: Gender of the Respondents

Gender	Frequency	Percent
Male	20	60.6
Female	13	39.4
Total	**33**	**100**

4.2.2 Years of Service

The respondents were asked to indicate the years of service they have been in the industry. Results on Table 4.2 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.

Table4.2:Years of Service

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

4.2.3 Position Held

The study sought to establish the position of respondents in the organization. Table 4.3 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 4.3: 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 companiesin Rwanda. Results on Table 4.4 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 4.4: 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 4.5 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 agencyproblems 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 opportunisticbehaviors and focus on value maximization activities.

Table 4.5: 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 4.6 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 4.6: 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

The fourth objective and last objective of the study was to establish the effect of legal structure on performance of mobile and data services companies in Rwanda. Table 4.7 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 underscores 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 andRashid(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 4.7: 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

X_1 = Financialdisclosure

X_2 = Executivecompensation

X_3 = Ownershipstructures

X_4= Legalstructure

ε= error term

In the model *a* is the constant term while the coefficient β_1 to $\beta_7$are used to measure the sensitivity of the dependent variable (Y) to unit change in the explanatory variable (X_1, X_2, $X_{3,}$ X_4). $\varepsilon$is the error term which captures the unexplained variations in the model.

Table 4.8 shows that the coefficient of determination also called the R square is 75.6%. This means that the combined effect of the predictor variables (Financialdisclosure, Executivecompensation, Ownershipstructures and Legalstructure) 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 4.8: 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 4.9 shows that the combine effect financialdisclosure, executivecompensation, ownershipstructures and legalstructure was statistically significant in explaining changes in performance. This is demonstrated by a p value of 0.000 which is less that the acceptance critical value of 0.05.

Table 4.9: 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 4.3 displays the regression coefficients of the independent variables. The results reveal that executivecompensation and ownershipstructures 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 4.10: Regression Coefficients

Variable	Beta	Std. Error	t	Sig.
Constant	4806.93	5462.908	0.88	0.386
Financialdisclosure	717.106	4060.373	0.177	0.861
Executivecompensation	11926.87	1599.597	7.456	0.000
Ownershipstructures	16993.48	2374.552	7.156	0.000
Legalstructure	7846.692	4657.318	1.685	0.103

4.5 Summary of Key Results

The summary of the results are shown on Table 4.11 which indicate that executivecompensation and ownershipstructures 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 4.11: Summary of Key Coefficients

Variable	Mean Score	P value
Financialdisclosure	3.83	0.861
Executivecompensation	3.97	0.000
Ownershipstructures	4.02	0.000
Legalstructure	3.94	0.103

4.6 Discussion of Key Results

The above four variables were discussed extensively in the empirical literature review. Financial disclosure was discussed in the review as regards itskey elementsas listed by (Kulzick, 2004). The study designed a questionnaire alongfinancial disclosures namely, quarterly reports, board oversight, full disclosure to stakeholders, availability of financial reports, and disclosure of financial reports on the company website.

Availability of financial statement had the highest mean score, followed by the openness of financial information to stakeholders. Indeed the companies with consistently good performances were also found to be the most open in terms of availability of financial information. This extended to the element of openness. This study links financial transparency with effective shareholders control as espoused by (Kulzick, 2004).

The second variable executive compensation as discussed in the literature review was found to be a major determinant of company's performance. The correlation between executive compensation and profitability was also very strong as per the above mean score and correlation co-efficient established.

Executive compensation had a questionnaire designed around the elements of basic salary, provision of housing, Interest free mortgage,bonus, share options, profit share and provision of life insurance to senior management. Housing had the highest mean score followed by life insurance and then bonus. The companies that had performed consistently well of a period of three years were again companies that had well laid out policies of executive compensation that also addressed the agency problem. The above findings were in line with Jason and Meckling (1976) who underscoredthe importance of incentive alignment solution to agencyProblems.

Empirical literature review discussed correlation between ownership structure and wealth and value maximization. The study established thiscorrelation to be the strongest, with the highest mean score and co-relation co-efficient. The element of ownership looked at in this study were, presence of institutional investors, foreign ownership, prevalence of percentage of shareholding method, Influence on the nature of shareholding and finally, flexibility of the ownership structure to boost performance.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.

Percentage shareholding and nature of shareholding to influence performance scored the highest mean followed by institutional investors. The top three performing companies in Rwanda telecom have lower number of individual shareholders instead banking on institutional and strategic shareholding to bolster performance.According to Jensen (2000), ownership structure is a significant determinant of firm's objectives, shareholders 'wealth and the extent of managerial opportunistic behavior, the study has shown the correlation by linking between the type of shareholders to performance.

Good legal protection for investors was found to be very important in the literature review both as a factor of corporate governance and influencer of results. This was shown to be correct as per the above mean score, though correlation to the company performance was found to be statistically insignificant.

The study reviewed the elements of a good legal structure namely,prevalence of legal affairs committee, availability of a full time company secretary which had the second highest mean score, carrying out of annual legal audits, keen follow up of potential litigation matters with the third highest mean and finally preference for arbitration and out of court settlements carried the highest mean score. Investor protection was found to be very important especially with the small investors this was in line with LaPorta et al. (2000) who underscored the importance of investor protection.

The top performing companies had the highest compliance to the legal structure and contributed the most to the high mean scores. This backs up (Ramly& Rashid, 2010) assertion that strong investor protection is associated with effective corporate governance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter finalizes the study by proving the summary of key findings, conclusions and recommendations. The summary, conclusions and recommendations are aligned to the specific objectives of the study.

5.2 Summary

The general objective of this study was to establish establish and document the corporate governance practises and their relationship to performances' in the mobile and data services companiesin Rwanda.

A sample of thirty three (33) respondents was drawn from all the employees at mobile and data services companiesin 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.

5.3 Conclusion

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.

5.4 Suggestion 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.

5.5 Implication of the study on Policy, Theory 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.

The study recommends that further studies be carried on the stakeholder's theory to increase its understanding in the developing country context. The study recommends that companies adopt and implement stakeholder's theories with a view to long term sustainability. Further the legal framework should be explicit in laying out the relationship between company and the stakeholders and move away from the current practices of settling matters away from the public.

The recommends the strengthening of the agency theory by encouraging more public ownership through listing in the stock exchanges and also improving on the financial and the non-financial disclosures. This will serve to improve the check and balances that are supposed to ensure the agency relations is working at optimum levels for protection of stakeholders and shareholders.

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APPENDICES

Appendix I: Introduction Letter

Date…………………..

……………………..Company Limited
P.O Box ……………..
Kigali Rwanda

Dear Sir,

<u>RE: DATA COLLECTION FOR ACADEMIC RESEARCH PROJECT</u>

I' am a postgraduate student at the University of Nairobi I wish to conduct a research entitled "*corporate governance practices and performances in the mobile and data services companies in Rwanda***".** A questionnaire has been designed and will be used to gather relevant information to address the research objectives of the study. The purpose of writing to you is to kindly request you to grant me permission to correct information on this important subject from randomly selected board members and senior staff.

Please note that the study will be conducted as an academic research and the information provided will be treated in strict confidence. Strict ethical principles will be observed to ensure confidentiality and the study outcomes and reports will not include reference to any individuals.

Your acceptance will be highly appreciated.

Yours Sincerely

<u>Edgar Opata</u>

Appendix II: Questionnaire

Instructions: Write or Tick where applicable:

SECTION A: BASIC DETAILS

1. Name of the company (optional)……………………………………….
2. Gender ☐ Male ☐ Female
3. Years of service ☐ 5 years and below ☐ 6-10 years ☐ 11-15 years ☐ 16- above years
4. Position held
   a) Board Member ☐
   b) Senior Management ☐
   c) Middle Management ☐
   d) Supervisory ☐

Section B: Corporate Governance Practices

This section aims at establish the nature of corporate governance practices in your company. Please indicate your agreement or otherwise with the following statements using the following likert scale.

Strongly Agree=5, Agree=4, Neutral=3, Disagree=2, Strongly disagree=1

FINANCIAL DISCLOSURE

No	**Statement**	**Strongly disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
		1	**2**	**3**	**4**	**5**
1	Our company follows international financial report standards and guidelines in making the annual reports					
2	We always release quarterly performance reports to the public and our business partners					
3	Our financial performance reports are discussed by a board before release to shareholders					
4	We do not conceal financial information from our stakeholders					
5	Our financial reports are available at will from interested parties					
6	We post our financial reports on the company website					

EXECUTIVE COMPENSATION

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	Basic Salary is the main remuneration type for executives in our company					
2	Subsidized Company Housing is a popular way of remunerating executives in our company					
3	Interest Free Mortgage is used in my company to motivate executives					
4	Bonus is used to compensate senior management					
5	Share options are used to compensate board members and senior management in my company					
6	Profit Share is popular way of remunerating executives in my company					
7	Senior management are provided with Life Insurance in our company					

OWNERSHIP STRUCTURE

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	Our company has institutional shareholding besides individual shareholders					
2	Having a significant ownership of foreigners in the company can influence financial performance					
3	Our company has a policy of the percentage of shareholding structure					

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
4	The nature of shareholding is influenced by strategic performance related decisions					
5	There are plans to review and expand the nature of ownership structure in the next five years with an objective to boost financial performance					

LEGAL STRUCTURE

No	Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
1	We have a legal affairs committee in the board					
2	The company has a full time company secretary who also sits in the board					
3	The company conducts annual legal audits with the aim of identifying legal exposures which may affect performance					
4	The company is very keen on business matters that may lead into litigation because they can affect financial performance					
5	The company has a policy that prefers use of arbitrations and out of court settlements on legal matters					

Appendix III: Secondary Data – Operating Profit

Company	**2010**	**2011**	**2012**
MTN Rwanda Limited.	14,823,000,000	16,104,000,000	16,767,475,625
Rwandatel Limited.	1,058,563,612	229,667,660.2	263,765,112.6
Liquid Telecommunication Company Limited.	79,186,388	266,274,839.8	316,234,887.4
Broadband Services communication Limited.	0	153,600,000	394,400,000
Airtel Rwanda Limited.	0	0	1,542,800,000
Tigo Rwanda Limited.	3,519,750,000	3,695,737,500	3,880,524,375
4G networks.	0	0	0
ISPA Rwanda.	0	10,240,000	11,600,000
New Artel Rwanda	19,500,000	20,480,000	23,200,000
Total	19,500,000,000	20,480,000,000	23,200,000,000

Source: Report on the statistics and Tariffs information in the Telecommunication sector in as at 31st December 2012 by The Rwanda Utility Regulatory Agency.

Appendix IV: Raw Primary Data

Qref	Gender	Years of service	PositionHeld	Financialdisclosure1	Financialdisclosure2	Financialdisclosure3	Financialdisclosure4	Financialdisclosure5	Financialdisclosure6	Executivecompensation1	Executivecompensation2	Executivecompensation3	Executivecompensation4	Executivecompensation5	Executivecompensation6	Executivecompensation7	OwnershipStructure1	OwnershipStructure2	OwnershipStructure3	OwnershipStructure4	OwnershipStructure5	Legalstructure1	Legalstructure2	Legalstructure3	Legalstructure4	Legalstructure5
1	1	4	2	4	1	1	1	5	5	5	5	4	4	3	5	5	5	3	3	3	2	3	2	5	2	3
2	1	4	2	4	5	5	4	4	5	4	3	5	5	4	4	5	5	5	4	4	2	3	4	5	2	4
3	1	4	4	1	4	1	5	4	4	5	5	3	4	5	2	5	2	3	5	4	3	5	4	2	2	5
4	1	4	4	1	4	5	5	4	5	1	3	4	5	4	4	3	2	5	5	4	3	2	4	1	2	5
5	1	4	4	1	4	4	1	5	5	4	4	5	5	2	2	5	2	2	3	5	3	5	2	2	3	2
6	1	4	4	1	4	4	4	5	5	2	5	5	4	1	5	4	2	3	4	5	3	5	2	3	3	4
7	1	4	4	1	5	5	4	4	1	5	5	4	4	2	1	5	5	5	4	4	3	2	2	5	3	4
8	1	4	4	1	4	2	4	4	4	5	4	4	4	5	1	4	4	2	4	4	4	5	4	4	4	4
9	1	3	4	1	1	4	5	5	1	2	4	4	5	3	5	5	3	4	5	5	4	2	4	2	4	5
10	1	3	4	1	4	4	5	4	4	2	4	5	4	4	1	4	4	2	5	4	4	4	4	2	5	5
11	1	3	2	2	5	5	5	4	1	5	5	4	5	5	5	2	5	5	5	4	4	2	4	5	5	5
12	1	3	4	2	1	1	5	4	4	4	5	5	3	4	4	4	2	2	5	4	4	4	4	2	5	5
13	1	3	4	2	4	4	5	5	4	5	5	3	5	3	5	5	3	4	5	5	4	2	4	1	5	5

Primary Raw Data

Qref	Gender	Years of service	Position Held	Financialdisclosure1	Financialdisclosure2	Financialdisclosure3	Financialdisclosure4	Financialdisclosure5	Financialdisclosure6	Executivecompensation1	Executivecompensation2	Executivecompensation3	Executivecompensation4	Executivecompensation5	Executivecompensation6	Executivecompensation7	OwnershipStructure1	OwnershipStructure2	OwnershipStructure3	OwnershipStructure4	OwnershipStructure5	Legalstructure1	Legalstructure2	Legalstructure3	Legalstructure4	Legalstructure5
15	1	3	4	2	1	2	4	4	4	2	5	4	5	2	4	2	4	2	4	4	4	4	5	3	5	4
16	1	3	4	3	5	5	4	4	5	4	5	2	4	2	5	5	5	5	4	4	5	2	5	5	5	4
17	2	4	3	3	4	2	4	4	4	1	4	4	2	5	1	5	4	2	4	4	5	5	5	4	5	4
18	2	4	3	3	1	4	5	5	5	4	5	2	4	1	5	3	4	4	5	5	5	2	5	2	4	5
19	2	4	3	3	4	4	5	4	4	1	4	5	4	5	2	5	4	3	5	4	4	4	2	2	2	5
20	1	4	3	3	5	5	5	4	1	5	4	4	1	4	2	5	5	5	5	4	2	2	3	5	5	5
21	2	4	3	4	4	5	5	4	4	4	5	2	5	2	5	4	2	3	5	4	4	4	4	2	3	5
22	1	4	3	4	4	4	5	5	4	5	4	5	5	3	5	4	3	4	5	5	4	2	3	3	4	5
23	2	4	3	4	4	1	1	5	4	5	2	4	3	5	1	5	3	2	3	5	4	4	5	2	4	2
24	2	3	3	4	4	5	4	4	4	2	5	2	5	4	4	4	2	4	4	4	4	4	3	1	4	4
25	1	3	3	4	5	5	4	4	1	4	2	5	4	4	4	3	5	5	4	4	2	2	2	5	5	4

Primary Raw Data

Qref	Gender	Years of service	Position Held	Financialdisclosure1	Financialdisclosure2	Financialdisclosure3	Financialdisclosure4	Financialdisclosure5	Financialdisclosure6	Executivecompensation1	Executivecompensation2	Executivecompensation3	Executivecompensation4	Executivecompensation5	Executivecompensation6	Executivecompensation7	OwnershipStructure1	OwnershipStructure2	OwnershipStructure3	OwnershipStructure4	OwnershipStructure5	Legalstructure1	Legalstructure2	Legalstructure3	Legalstructure4	Legalstructure5
28	2	3	3	4	4	5	5	4	4	4	2	5	4	5	4	3	4	4	5	4	4	4	1	4	3	5
29	2	3	3	4	5	5	5	4	1	3	4	5	5	4	2	5	5	5	5	4	2	3	2	4	5	5
30	2	3	3	1	4	1	5	4	4	5	3	5	4	4	5	4	2	2	5	4	4	4	2	4	2	5
31	2	3	2	1	4	4	5	5	4	4	5	5	5	5	4	2	2	4	5	5	4	2	2	2	4	5
32	2	3	2	4	4	1	1	5	4	5	5	5	5	5	5	5	3	4	2	5	4	4	3	2	2	3
33	1	2	2	1	4	5	4	4	4	1	5	4	4	5	4	3	2	4	4	4	4	4	3	3	5	4

Source: Answered Questionnaires.

Appendix V:List of Telecommunication Companies in Rwanda

1. MTN Rwanda Limited.
2. Rwandatel Limited.
3. Liquid Telecommunication Company Limited.
4. Broadband Services communication Limited.
5. Airtel Rwanda Limited.
6. Tigo Rwanda Limited.
7. 4G networks.
8. ISPA Rwanda.
9. New Artel Rwanda

Source: Report on the statistics and Tariffs information in the Telecommunication sector in as at 31st December 2012 by The Rwanda Utility Regulatory Agency.