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INFLUENCE OF DECISION-MAKING PRACTICES ON CORPORATE GOVERNANCE PERFORMANCE IN PUBLIC INSTITUTIONS IN RWANDA

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ABSTRACT

The purpose of this study was to assess the influence of decision-making practices on corporate governance performance in public institutions in Rwanda. The study adopted a descriptive and explorative design. 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 and middle management staff. Data for the study was collected by use of questionnaires, interviews and observation. The study used descriptive and inferential statistics to establish the relationship between the dependent and independent variable. 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 decision making 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. Decision-Making Practices had a positive relationship with corporate governance performance in public institutions in Rwanda ($r = 0.434$, $p < 0.001$) respectively at 0.05 level of significance. The findings confirmed that there is a statistically significant influence of decision making practices and corporate governance performance in public institutions in Rwanda. The study concluded that decision-making Practices are effective in determining corporate governance performance in public institutions in Rwanda. The study suggested that there are other mediating or intervening factors that can affect corporate governance performance that could be researched further for example the type of leadership. Therefore, future studies could introduce other moderating or intervening variables in their models.

***Keywords:** Corporate Governance Performance, Decision-Making Practices, Public institutions in Rwanda*

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INTRODUCTION

Strategic decision-making is a conscious and analytical process, involving the creation of an organization's mission and objectives and deciding upon the courses of action to be pursued by an organization to achieve these goals (Allison, 2011). Strategic decisions are about organizations coming up with strategies that will enable it analyze internal and external resources to gain competitive advantage. Strategic decision-making, therefore, includes choosing the key factors that determine the performance of an organization in the long-run and is one of the means through which management preference is executed.

Board leadership practices has been a subject receiving increased attention during the last three decades (Beekes, Pope & Young, 2012). According to Finkelstein and Hambrick, (2014), public institutions especially in the last decades have realized the importance of composing effective boards of directors in order to maximize organizational performance. Boards have long had the legal authority and shareholder encouragement to proactively oversee executive decision making (Ebrahim, Faudziah & Abdullah, 2014). Boards with relevant knowledge, skills, and abilities have the potential for proffering unique tactical and strategic advantages to corporations (Finkelstein & Hambrick, 2014). They can contribute to a firm's success through three primary roles: the resource role wherein they enhance access to critical external resources, the service role in which they provide important advice to executive management, and the control role in which they provide governance oversight and determine incentives for executive performance (Chatterjee & Harrison, 2014). To do this, boards require financial resources which are affected by the firm's capital structure.

In the early corporate development years, Berle and Means (2012) noted that directors were virtually appointees of founders or chairmen of private companies or firms ratified by shareholders who were then usually not many. As the corporate divide grew, the problem of self-perpetuating boards emerged since it was not possible for shareholders located far across the world to influence the choice of directors from the host country, whom they particularly did not have personal knowledge about. Tricker (2009) argued correctly that the roles and responsibilities of the chairman of the board and the chief executive officer remain the most contentious and unresolved issue in corporate governance. The chairman of the board is appointed by directors from amongst themselves while the chief executive officer is a member of the management through which the board's decisions and policies are implemented. The role of chairmanship and that of chief executive officer have often been combined and delegated to one person, a philosophy that has been fought by scholars of good corporate governance over the years.

Statement of the Problem

Previous studies have several literature gaps that were filled by this study. Most of the studies had concentrated on the relationship between ethical and integrity issues and financial performance. There was therefore clear evidence that the relationship between decision making practices as determinant of corporate governance performance had not been studied simultaneously. Therefore, this study sought to fill this gap by critically evaluating influence of decision-making Practices on corporate governance performance in public institutions in Rwanda by answering the research question: Does decision-making practices have any influence on corporate governance performance in public institutions in Rwanda?

LITERATURE REVIEW

Resource Dependency Theory

The resource dependency theory provided a theoretical basis for the roles of board as a resource

to the firm (Hillman *et.,al* 2010). Therefore, appointing directors can bring social capital and competence to the firm as this is a valuable quality that a director can bring to the board (Stevenson and Radin, 2010). From this point of view, board composition is regarded as a resource that can increase the value to the firm through improved performance.

A fundamental argument of this theory is that, firms attempt to exert control over their environment by bringing on board resources needed to survive (Pfeffer &Salanick, 2008). Critical resources are often added to the board as way of managing dependence and therefore benefiting the firms. Outside directors bring resources to the firm, such as information, skills, access to key constituents (e.g., suppliers, buyers, public policy decision makers, social groups) and legitimacy'' (Hillman et al., 2010). A case in point is that following the financial meltdown of 2008, various financial institutions included directors with risk management knowledge to their boards. Once on the boards, these directors work to assist the firm (Hillman and Dalzie, 2013).

Resource dependency theory also adopts a broad view that the skills and knowledge of directors are resources that could be used to help the firm perform better. The resource envelopes also include providing advice to management on strategic actions (Poppo and Zenger, 2008). In this case firms that are struggling with solvency issues are likely to appoint a representative of financial institutions to their board (Mizruchi and Stearns, 2008). This theory therefore portends that the skills and knowledge of directors are resources that can help the firm perform better.

Adequate resources availed to the board of directors ensures that the board can make proper decisions that suits the public.

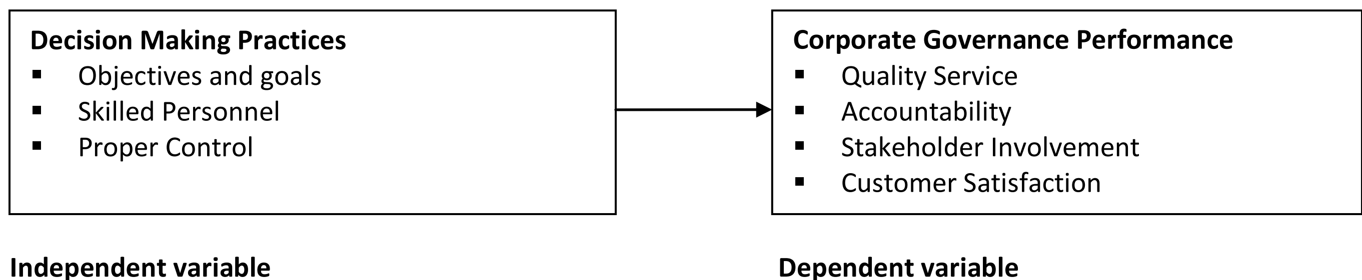

Figure 1: **Conceptual framework**

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.

Analysis for Decision Making Practices

Regression analysis was performed in order to determine whether the independent variable, decision-making practices could be reliable for explaining the change in the dependent variable, corporate governance performance. The coefficients obtained indicated that the correlation coefficient (R) between the independent variable and the corporate governance performance was 0.811 which is a positive correlation relationship. Table 1 shows a coefficient of determination (R^2) of 0.658, which means that this variable alone can explain up to 65.8% of the variations in the dependent variable, corporate governance performance.

Table 1: Model summary showing Decision-Making Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.811[a]	.658	.656	.420123

a. Predictors: (Constant), Decision-Making Practices

The Analysis of Variance (ANOVA) results were shown in Table 2. The findings further confirmed that the regression model of decision-making practices on corporate governance performance is significant for the data F=156.122, p<0.01) since p-values was 0.00 which was less than 0.05.

Table 2: ANOVA for Decision-Making Practices

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	51.431	1	51.431	293.042	.000[a]
	Residual	26.811	82	.617		
	Total	78.242	83			

b. Dependent Variable: Corporate governance performance

c. Predictors: (Constant), Decision-Making Practices

The coefficients of decision-making Practices were presented in Table 3 which indicated that the model had a significant p-value =.000. The study at 95% confidence interval solved the research question by indicating that the variable Decision-Making Practices is statistically significant in the corporate governance performance public institutions in Rwanda.

Table 3: Coefficients of Decision-Making Practices.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.522	.205		2.826	.000
	Decision-Making Practices(X4)	.620	.046	.811	17.118	.000

a. Dependent variable: Corporate governance performance

Using the summary of Coefficients presented in Table 3, a linear regression model of the form, $Y = \alpha + \beta Xi$ can be fitted as follows:

$Y = 0.522+0.620X4$......................Equation 1

This implied that a unit change in Decision-Making Practices would increase corporate governance performance by the rate of 0.620.

Hypothesis Testing

$H0_1$: There is no significant influence between Decision Making Practices on corporate governance performance public institutions in Rwanda

The hypothesis was tested by using multiple linear regression and determined using p-value. The acceptance/rejection criteria were that, if the p value is less than 0.05, we reject the $H0_1$ but if it was more than 0.05, the $H0_1$ was not rejected. Therefore, the alternative hypothesis is that there is significant influence between Decision Making Practices on corporate governance performance public institutions in Rwanda. Results showed that the p-value was 0.025. This was supported by a calculated t-statistic of 5.850 that was larger than the critical t-statistic of 1.96. The alternate hypothesis was therefore not rejected. The study therefore adopted the alternative hypothesis that there is significant influence between Decision Making Practices on corporate governance performance public institutions in Rwanda.

CONCLUSION

The findings confirmed that there is a statistically significant influence of Decision-Making Practices and on corporate governance performance of public institutions in Rwanda. A positive increase in Decision-Making Practices leads to an increase in on corporate governance performance of public institutions in Rwanda. It was concluded from this study that Decision-Making Practices are statistically significant in explaining on corporate governance performance of public institutions in Rwanda. The study concluded that Decision-Making Practices are effective in determining on corporate governance performance of public institutions in Rwanda.

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