

Influence Of Ethics On Financial Performance In Tanzanian Local Government Authorities

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ABSTRACT

Financial misconducts in Tanzania Local Government Authorities (hereafter named LGAs) have been recurring for years despite efforts taken to offset them. In this paper level of financial performance in Tanzanian LGAs and influence of ethics on financial performance in Tanzanian LGAs are reported on. A questionnaire, focus group discussions and key informant interviews were used in data collection. The study involved 400 LGA employees, 12 focus group discussions and 12 key informant interviews. Data were analyzed by using the SPSS software programme. Descriptive statistical analysis was used to determine level of financial performance in Tanzanian LGAs. Ordinal Logistic Regression analysed influence of ethics on financial performance in Tanzanian LGAs. While descriptive statistics analysis revealed moderate level of financial performance in Tanzanian LGAs, ordinal logistic regression analysis revealed significant influence of accountability, transparency and conflict of interest on financial performance at the 0.05 level of significance. LGA employees are urged to regularly attend ethics trainings sessions. Since ethics has significant effect on financial performance, it is important that the public service employees take a proactive measure by considering these variables seriously in their operations. The Tanzania Public Service College that is mandated to train public servants should design, train and monitor ethical practices in the public sector of Tanzania.

Key words: Ethics, Local Government Authorities, Financial Performance

1. INTRODUCTION**1.1 BACKGROUND AND STATEMENT OF THE PROBLEM**

The establishment of LGAs in Tanzania (previously called Tanganyika) dates back to pre-colonial time before 1918, although they have been established, abolished and re-established (Mustafa, 2008). Before the colonial era up to early stages of the colonial era, local communities were organized in chiefdoms and councils of elders. Thereafter, the coming of Germans in the late 1800s, through direct rule, abolished the chiefdoms and established the post of the District Commissioner (DC). Unlike the Germans, the British who started ruling Tanganyika in the 1920s through indirect rule adopted a different approach whereby Native Authorities and Township Authorities were encouraged until Tanzania became politically independent in 1961. In the first decade of independence, 1961-1971, chiefdoms were abolished; instead there were Inclusive Local Authorities. While Rural Authorities were abolished in 1972, Urban Authorities were also abolished in 1973. In the decentralization era (1972-1982), a system of de-concentration of government replaced the comprehensive local government system. In the beginning of the 1980s (1982) local governments were reintroduced. Following this, local government elections were carried out in 1983, and in the 1984 there was establishment of functioning councils. Finally, Local Government Reform started in 1996 which resulted in Tanzania Local Government Reform Programme in 1998 (Tidemand and Msami, 2010).

Among others, the main objective of the above reform was to transfer financial responsibilities to LGAs (Flavianus, 2016). Since the transfer of fiscal responsibilities to LGAs was important, the transfer required sound financial management in revenues and public expenditure (Flavianus, 2016; Renyan *et al.*, 2012). Due to that, central government capacitated LGAs revenue system prior to fiscal decentralization (URT, 2013). Along this, Performance Management System (PMS) to public sector which emphasized effective and efficient use of public resources was introduced in 1999 (Ngomuo and Wang, 2015). Additionally, various guidelines such as the Local Government Finance Act No 9. of 1982, Local Authorities Financial Memorandum of 1997, Financial Regulations of 1995, Public procurement Act of 2004, to mention few; were enacted (Mbogela and Mollel, 2014).

More to the point, various related legal instruments to guide financial performance such as URT Constitution (1977), the Public Procurement Act (URT, 2004), the Public Finance Act (URT, 2001), Leadership Code of Ethics (URT, 1995), PCCB (URT, 2007), Judiciary and Police Force, and the National Board of Accountants and Auditors were put in place (Mtandi and Chachage, 2016). In addition, sets of ethics and rules governing public servants were introduced (URT, 2012; URT, 2005). The intention of these legal instruments and ethics was to have a public sector with a sound financial performance system (Flavianus, 2016). Financial performance is the use of financial resources in terms of values for money, which is use of the financial resource economically, efficiently and effectively (Salawu and Agbeja, 2007).

There is growing evidence that unethical decisions often undermine the financial performance of organizations (Clark and Leonard, 1998). As such, ethics is important, and one of the generally accepted ways for integrating values and standard of behaviour into public services (Sakyi and Bawole, 2009). Since ethics is a broad term, the concept was narrowed down to the national code of ethics and conduct for public service and financial ethical values. The national code of ethics and conduct for public service identifies specific acts that must either be adhered to or avoided and encourage groups and individual employees to display particular characters such as loyalty, honesty and objectivity, to mention a few (Fisher and Lovell, 2006 cited by Sakyi and Bawole, 2009). Eventually, the national code of ethics and conduct for public service was expected to nurture employees' financial ethical values that are integrity, accountability, transparency, conflict of interest and trust (Eghosa, 2012). As a result, unethical behaviours such as misuse of financial resources were expected to fall outside the bounds of accepted standards or values (Ezigbo, 2012). In turn, local government authorities were expected to have high level of financial performance.

Contrary to the above expectations, the Government of Tanzania has been experiencing difficulties and problems in managing public resources including financial resources (Policy Forum, 2012; Controller and Auditor General, 2015, cited by Mtandi and Chachage, 2015). In addition, LGAs have failed to demonstrate to local taxpayers to what extent they receive value for money (URT, 2004 cited by Chalu and Kessy, 2011).

Moreover, the study by Chalu and Kessy (2011) found that there are problems of transparency and accountability regarding financial matters in Tanzanian LGAs (Fjeldstad *et al.*, 2004 in Chalu and Kessy, 2011). Thus, the problem of this research paper was why there was a recurrence of financial mismanagement in Tanzania LGAs despite efforts made by the government to offset them. For that reason, more studies were needed to accurately measure relationships between ethics and financial performance in Tanzania LGAs. This paper answered research objective number four by determining level of financial performance in Tanzania LGAs in terms of economy, effectiveness and efficiency and analysing influence of ethics on financial performance.

1.2 THEORETICAL FRAMEWORK

1.2.1 THEORY OF CONSEQUENTIALISM/UTILITARIANISM

Theory of consequentialisms guided this study. The theory holds that an agent performs a morally right action if such an action will maximize good and minimize evil in terms of the number of people who benefit from that particular action (Ochulor, 2011). In other words, if an action gives happiness to the greatest number of people affected by it, it becomes morally right (Uduigwomen 2006 cited by Ochulor, 2011; Alder *et al.*, 2008). From this theory, it is easy to see how misuse of public funds goes against the principle of morality. Misuse of public fund has bad effect on the society, jeopardizes the common good and ultimately inflicts pain on a very large number of people, if not the whole nation. The theory emphasizes to take into account the final consequence of our action. As per this study, the final consequence is the use of council resources to benefit the entire council (Rainbow, 2002).

The theory contains the following flaws. Uncertainty can lead to unexpected results, making the user be seen as unethical as time passes because the action taken did not benefit the people as predicted it would be (Victoria, 2012). The process of identifying and weighing all the consequences, or even a number of consequences deemed sufficient to make the decision, is often too time consuming for decisions that need to be made quickly. Again, it is problematic to evaluate the morality of decision based on actual consequences as well as probable consequences. However, the consequence approach has the hoped-for consequences as the starting point, which leads to a certain type of action, which is then justified in relation to what was aspired for. Therefore, this theory showed the way ultimate end of ethics was to improve financial performance in Tanzanian local government authorities in terms of use of financial resources effectively, efficiently and economically for the benefit of entire council.

1.3 CONCEPTUAL FRAMEWORK

The conceptual framework demonstrates that ethics is quite instrumental in ensuring financial performance. The national code of ethics and conduct for public service nurtures employees' financial ethical values that are integrity, accountability, transparency, conflict of interest and trust which in turn help employees to use council resources effectively, efficiently and economically. While integrity is an ethical value which help employees to

use financial resources with care, accountability is answerability to the use of public resources, and transparency is openness in the use of public resources. Moreover, conflict of interests is the control of self-interests while using public resources and trust is consistence in the use of public resources. Whereas effectiveness is timely use of quality few and cheap resources and services, efficiency is the impact of values for money of the resources and services used. Nevertheless, economy is cost minimization while using resources and services.

2. METHODOLOGY

2.1 SELECTION OF THE RESEARCH AREAS

The study selected four LGAs in Tanzania that are Shinyanga Municipal Council, Korogwe Town Council, Monduli District Council and Siha District Council as a study area. There were two major reasons to support this selection. First reason based on arguments by Ary *et al.* (2000) that the most important characteristic of a sample is its representativeness and not its size. Secondly, since characteristics of urban and rural councils varies accordingly the selection of four councils enhanced chances for inclusion rural and urban councils. Application of simple random sampling using a table of random numbers selected four councils. The table of random numbers typically consists of an extensive series of numbers randomly generated using a computer particularly Excel whereby “the =RAND ()” command is used. The first step was to assign each LGA a distinct identification number and then use the table of random numbers to select the identified numbers (Ary *et al.*, 2000).

2.2 RESEARCH DESIGN

The study adopted a cross-sectional design. The design enabled this study to collect data from four LGAs at a single point of time. Through this design, the study collected a body of quantitative and qualitative data. Use of triangulation enabled this study to gather data from different sources through difference method. The study examined data collected to detect patterns of relationships between ethics and financial performance (Bryman, 2004). The design also was useful for descriptive and inferential analysis. The respondents were selected using simple random sampling method. The method used a table of random numbers. The procedure was as follows. Each council provided a complete and update list of council employees. The researcher gave names of council employees in each council serial number. Based on a table of random numbers, the researcher selected respondents randomly by taking those whose serial number corresponded with some of the random numbers in the table of random number that was used. In each of the four (4) councils, the researcher selected 100 respondents making 400 respondents. Based on the criteria that conditions for establishment of Tanzanian LGAs were more or less the same (URT, 2013), the researcher selected 100 respondents from each council.

The researcher selected randomly council employees under the assumption that, they were the key players in performing, supporting and evaluating services within their councils. Secondly, the researcher has an

assumption from pilot study that all council employees had reasonable knowledge regarding council's ethical and unethical conducts as employees' from low to high ranks interacted with each other. In addition, the pilot study revealed that understanding of employees ethical behaviours especially in relation to the use of council resources were not determined by employees working rank but rather personal interactions. The decision on the sample size based on "too large a sample implies a waste of resources, and too small a sample diminishes the utility of the results" (Cochran, 1977, cited by Bartlett *et al.* (2001). Therefore, the study used Cochran's (1977) formula, cited by Bartlett *et al.* (2001) to determine the sub-sample size as follows:

n = sample size;

$n = \frac{Z^2 * p(1-p)}{d^2}$ (Cochran, 1977, cited by Bartlett *et al.* (2001), where:

Z = a value on the abscissa of a standard normal distribution (from an assumption that the sample elements are normally distributed), which is 1.96 or approximately 2.0 and corresponds to 95% confidence interval;

p = estimated variance in the population from which the sample is drawn, which is normally 0.5 for a population whose size is not known;

d = acceptable margin of error (or precision), whereby the general rule is that in social research d should be 5% for categorical data and 3% for continuous data (Krejcie & Morgan, 1970, cited by Bartlett *et al.* (2001). The research used 5% since the study had substantial categorical data.

Using a Z -value of 2.0, a p -value of 0.5, a q -value of 0.5, and a d value of 5% (which is equivalent to 0.05), the sample size (n) was determined to be 400.

$n = \frac{2^2 * 0.5(1-0.5)}{0.05^2} = (4 * 0.25)/0.0025 = 1/0.0025 = 400.$

The study employed purposive sampling to select respondents for both key informant interviews and focus group discussions. As such, in each council, there were three focus group discussions (male, female and both male and female). The pilot study revealed that some women were not free to participate actively when mixed by men. Moreover, the same pilot study revealed that some points were not discussed well when men and women were separated. These were the reasons for having three groups for focus group discussions. Most of the participants were council citizens. Based on pilot study the researcher selected purposefully Heads of Department from human resources, finance and planning departments as key informant interviews.

2.3 DATA COLLECTION INSTRUMENTS

The study used a self-administered questionnaire to collect employees' quantitative opinions regarding ethics and financial performance. The questionnaire included an 18 -statement index summated scale to measure the dependent variable (financial performance) in Tanzanian LGAs, and a 53 -statement index summated scale to measure the independent variables (29 for national code of ethics and conduct for public service and 24 for financial ethical values). A checklist and FGD guide enabled this study to carry out key informant interviews and FGDs discussions. In addition, the study reviewed relevant documents such as budgetary reports, finance and administration committee reports, council by-laws and CAG findings.

2.4 MEASUREMENT OF VARIABLES

This study had one dependent variable (financial performance with three constructs that are efficiency, effectiveness and economy). Each of the three items had a number of statements to which the respondents were required to respond Not true at all to (0), fairly true (1 point), true (2 points) or very true (3 points). The study also had two independent variables (the national code of ethics and conduct for public service with eight construct pursuit of excellence in service, loyalty to government, diligence, impartiality, integrity, accountability to the public and proper use of official information). Each of the eight items had a number of statements to which the respondents were required to respond Not at all adhered to (0), fairly adhered to (1 point), adhered to (2 points) or strongly adhered to (3 points). The second independent variable (financial ethical value had five constructs that are integrity, accountability, transparency, conflict of interest and trust). Each of the five items had a number of statements to which the respondents were required to respond Not true at all (0), fairly true (1 point), true (2 points) very true (3 points). Each variable was measured individually as shown in Table 1 and 2.

Table 1: Measurement of dependent variable

Financial performance	Not true at all (0), fairly true (1 point), true (2 points) or very true (3 points)
(1) Efficiency (timely use of quality and cheap resources and services)	Activities are done the same as before, but with fewer resources in terms of money staff, space etc. Looking forward to get out much in relation to how much put in Optimally use of financial resources in the attainment of the councils set targets Best use of financial resources Fund disbursement on time Make retirement on time
(2) Effectiveness (impact of value of money in use of resources and service)	Impact of financial output Financial satisfaction on all the council projects Adoption of innovative and forward looking financial management practices Achievement of intended financial results in terms of quality, in accordance with the set of performance standards
(3) Economy (cost minimization in the use of resources and services)	Minimizing the cost of resources for all the available programmes Generating cost saving on most of procurements Pays the price that is exactly for what goes into providing a service of product Taking bulk discounts by buying in large quantity Uses of in-house technical capacity instead of recruiting expensive consultants Looks out for cheaper outsourcing solutions than directly buying in expensive services The proper and economical utilization of public funds Safeguards the public property

Table 2: Measurement of independent variable

The national code of ethics and conduct for public service	Not at all adhered to (0), fairly adhered to (1 point), adhered to (2 points) or strongly adhered to (3 points)
(1) Pursuit of excellence in service (doing the best)	Maintains personal hygiene (Hygiene) Dresses in acceptable attire in accordance with office norms (appearance) Uses language (politeness)
(2) Loyalty to government (valuing and showing commitment)	Loyalty to government (faithfulness) Implement policies and lawful instructions given by leaders (commitment) Uses skills, knowledge and expertise while discharging duties (competence)

(3) Diligence (working well, hard, everywhere and time management)	Executes duties and responsibilities with maximum time (time management) Works at any duty station (obedience) Punctualities at work place and official appointments (time management)
(4) Impartiality (being fair to others)	Engages in politics in official hours and at work premises (presence on duty) Provides unbiased services to clients (customer care) Passes information to allowed people or institutions (confidentiality) Engages in religion at official hours and off work premise (presence on duty)
(5) Integrity (delivering on the promises and consistently exercising duties as a public servant)	Exercises authorized powers within specified boundaries (legitimacy) Uses powers as directed in favour of LGA and client (legitimacy) Safeguards public resources (trustfulness) Uses public resource for public use only (trustfulness) Uses official time to perform duties entrusted (time management) Behaviours well within and outside the office (character) Discharges improper favours or bribe for person serving (handing bribes)
(6) Accountability to the public (answerability for actions and inactions taken)	Treats clients politely (customer care) Pays extra attention when dealing with vulnerable clients (customer care) Clarifies or provides direction on issues when requested (customer care)
(7) Respect for the law (right to dignity of others)	Familiar and abides with rules, regulations and procedures (competency) Applies laws, regulations and procedures at work (commitment) Treats fairly all members of the public (customer care) Sexual relationships at work place and during working hours (faithfulness) Protects unauthorised official information (confidentiality)
(8) Proper use of official information (caring confidential documents)	Uses official documents or information in course of discharging duties (confidentiality)
Financial ethical values	
(1) Integrity (behaving financially according to stated financial ethical values)	Not true at all (0), fairly true (1 point), true (2 points) or very true (3 points) Use council resources as instructed (authenticity) Use council funds as instructed (authenticity) Use council funds as budgeted (authenticity) Higher level of financial discipline (financial behaviour) Refuse of bribes (financial behaviour)
(2) Accountability (answering decisions made on financial to responsible authority)	Answerability for public funds (responsibility) Report the was public funds used (answerability) Observe internal financial rules and norms (commitment) Acceptance of complaints from citizens on use of public funds (customer care) Accountability for all resources (answerability)
(3) Transparency (making financial budgets accounts accessible to all responsible stakeholders)	Accessibility to financial information by all stakeholders and other users (openness) Publications of financial details in the press to all a balanced judgement (openness) Openness in decisions and actions taken regarding public funds (openness) Ready to give reasons for the decisions taken regarding public funds (answerability)
(4) Conflict of interest (disclosure of personal interest in the public service)	Avoidance of conflict of interest on use of public funds (fairness) Avoidance of influence of financial decisions for personal benefit (fairness) Use of public funds properly (faithfulness) Minimization of financial conflict of interest (fairness)
(5) Trust (building financial trust to all stakeholders)	Holding public fund in public trust (faithfulness) Responsibility for fund disbursed (answerability) Accountability to the public fund at all times (answerability) Trusted financial ethical behaviour (financial behaviour) Trusted social behaviour (character) Observation of standards of financial accountability (commitment)

As seen in Table 1 and 2, for financial performance, an index-summated scale comprising 18 statements about financial performance was used, while national code of ethics and conduct for public service, an index summated scale comprising 29 statements was used and financial ethical values, an index summated scale comprising 24 statements was used to determine the levels of the variables. Automatic boundaries for classification of the scores obtained on the index scales were used to rank respondents' views on financial performance, the national public service code and financial ethical values into low level, moderate level and high

level. The scores obtained were expressed in terms of points actually scored as percentages of maximum possible scores on the scales. The expression of points actually scored in percentages was done by multiplying the number of statements for each variable (18, 29 and 24 as seen above) by automatic boundaries (0, 1, 2 and 3).

For example, by considering financial performance that had 18 statements, the percentage of low level was converted by multiplying 18 statements by the first upper automatic boundary 1 (18 x 1 = 18) divide by the highest possible score $18 \div (18 \times 3 = 54) \times 100 = 33.3\%$. The percentage of moderate level was converted by multiplying 18 statements by the second upper automatic boundary 2 (18 x 2 = 36) divide by the highest possible score $36 \div (18 \times 3 = 54) \times 100 = 66.7\%$. The percentage of high level was converted by multiplying 18 statements by third upper automatic boundary 3 (18 x 3 = 54) divide by the highest possible score $54 \div (18 \times 3 = 54) \times 100 = 100.0\%$. Thus, low, moderate and high levels were classified as (0% – 33.3%, 33.4% – 66.7% and 66.8% - 100.0%) respectively. Similarly, the above procedure was followed for the national code of ethics and conduct for public service and financial ethical values.

2.5 DATA PROCESSING AND ANALYSIS

According to Meral and Eylem (2009), there is no universal method to help researchers choose a method, which fits best in a given dataset. The study analysed primary quantitative data using the Statistical Package for Social Science (SPSS) software. Therefore, the analysis computed data into descriptive statistics including frequencies and averages on the index-summated scales to determine level of financial performance. Podesva and Devyanis (2013) recommend use of frequencies to make value of ordinal variables meaningful. Frequencies give a clear ranking of a score in the distribution (Thomas and Nelson, 2001 cited by Mabagala, 2013). Frequencies analyze the points scored on index-summated scales when using SPSS in descriptive data (Boone and Boone, 2012; Gob *et al.*, 2007).

This research also sought to determine the influence of ethics on financial performance in LGAs using ordinal logistic regression model because dependent variable was ordered (ranked) and the independent variable include variable measured at the continuous and categorical levels (Agresti and Finlay, 2009). Dependent variable (Y) was categorized into three levels (low level, moderate level and high level), based on individual scores. The independent variables included a mixture of factors contributing to financial performance including integrity, accountability, transparency, conflict of interest, trust and national code of ethics and conduct for public service. The ordinal logistic regression model used took the form below:

$$P(y) = \frac{e^{\alpha + \beta_1 x_1 + \dots + \beta_k x_k} + E}{1 + e^{\alpha + \beta_1 x_1 + \dots + \beta_k x_k}}$$

(Agresti and Finlay, 2009), where:

P(y) = the probability of the success alternative occurring

e = the natural log

α = the intercept of the equation

β_1 to β_k = coefficients of the predictor variables

x_1 to x_k = predictor variables entered in the ordinal regression model

Specifically, in the research:

P (y) = the probability of LGAs being grouped in the quintile of highest level of financial performance

α = the intercept of the equation

$\beta_1... \beta_9$ = Regression coefficients

x_1 = Integrity

x_2 = Accountability

x_3 = Transparency

x_4 = Conflict of interest

x_5 = Trust

x_6 = National code of ethics and conduct for public service

E = Error term representing a proportion of the variance in the dependent variable that will be unexplained by the regression equation.

Adequacy of the model was checked by model fitting information, goodness-of-fit and test of parallel lines as shown from sub-section 2.5.1.

2.5.1 MODEL FITTING INFORMATION

In model fitting information, lower values of significance indicate a good fit to the data, suggesting good overall model fit (Newson, 2010). From Table 3 the p-value of the Model fitting information (0.006) showed that the overall model was statistically significant. In other words, the independent variables (ethics) significantly affected the dependent variable (financial performance) at the 0.05 significance level. The statistically significant chi-square statistic ($p \leq 0.05$) indicates that the final model gives a significant improvement over the baseline intercept model.

Table 3: Model fitting information

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	313.216			
Final	285.244	27.973	12	0.006

2.5.2 GOODNESS-OF-FIT

Good models have large observed significance levels. If the model fits well, the observed and expected cell counts are similar. You reject the null hypothesis that the model fits if the observed significance level for the goodness-of-fit statistics is small. Hosmer *et al.* (1997). Table 4 suggests that the goodness-of-fit had large observed significance levels ($p \geq 0.05$); so the model fitted data.

Table 4: Goodness of fit

	Chi-Square	Df	Sig.
Pearson	156.842	184	0.927
Deviance	158.297	184	0.915

2.5.3 PSEUDO R-SQUARE

There are several R^2 -like statistics that can be used to measure the strength of the association between the dependent variable and the predictor variables. What constitutes a “good” R^2 value depends upon the nature of the outcome and the explanatory variables. Table 5 shows that the Pseudo R^2 values are having small size effect. The pseudo R^2 values (e.g. Nagelkerke = 8.5%) indicates that there is relatively small proportion of the variation in financial performance and ethics. This is just as we would expect because there are numerous other factors that affect financial performance.

Table 5: Pseudo R-Square

Cox and Snell	0.070
Nagelkerke	0.085
McFadden	0.042

2.5.4 TEST OF PARALLEL LINES

The null hypothesis shows that the location parameters (slope coefficients) are similar through response categories. If we were to reject the null hypothesis based on the significance of the Chi-Square statistic, we would conclude that ordered logit coefficients are not equal across the levels of the outcome, and we would fit a less restrictive model (i.e. multinomial logit model). If we fail to reject the null hypothesis, we conclude that the assumption holds. For our model, the proportional odds assumption appears to have held because the significance of our Chi-Square statistic is $0.553 > 0.05$. Thus, the assumption is met as the test shows a level of non-significance. Thus, the proportional odds assumption appears to have held for the general model.

Table 6: Test of Parallel Lines

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	285.244			
General	274.520	10.724	12	0.553

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.

3. RESULTS AND DISCUSSION

3.1 LEVEL OF FINANCIAL PERFORMANCE IN TANZANIA LOCAL GOVERNMENT AUTHORITIES

The findings in Table 7 show that use of financial resources in economy in Tanzanian LGAs was the highest, although at a moderate level (66.2%), while the lowest was efficiency at moderate level too (50.5%). Yet, the overall level of perceived financial performance was moderate (58.5%) (See Table 7). There was a bit improvement of LGAs financial performance as reported in a previous study carried out by Ngomuo (2015)

which measured Local Government Authorities' performance in Tanzania reported poor financial performance in LGAs at the average rate of 15.4%. Perhaps this improvement was fast-tracked by strategies used by LGAs to make its activities to appear legitimate and effective (Goddard and Mzenzi, 2015). The improvement attained is in line with theoretical guide that LGAs are to perform a morally right action such as use of resources in economically, efficiently and effectively as it maximizes good and minimizes evil (Ochulor, 2011). Aligned with the theory, 229 (57.3%) out of 400 respondents declared that it was morally right to use municipal funds efficiently, effectively and economically for the benefit of entire council.

Anyhow, level of financial performance in Tanzanian LGAs remained at a moderate level, possibly because management of public funds in an effective and efficient manner was not maximized (Fourie and Poggenpoel, 2016). This is perhaps why, basing on the theory, only 234 (58.5%) out of 400 respondents thought that it was their duty to use municipal funds efficiently, effectively and economically for the benefit of entire council. Most of FGD discussants reported improvements achieved in relation to the use of public resources economically, efficiently and effectively, although the improvements were jeopardized by few unfaithful employees. For example, one respondent said that “although recently council workers were conscious about the use of public resources, there were some employees who were not conscious.” Yet, an interviewee said: “unlike in previous years, we have reduced theft cases as most of our employees are accountable for whatever is entrusted to them.” The findings suggest that, although the trend of utilization of public resources in Tanzanian LGAs was improving, few employees were undermining this trend.

Table 7: Descriptive Statistics of Financial Performance

Financial performance in Tanzanian LGAs	n	Mean	Std. Deviation
Use of financial resources efficiently in Tanzanian LGAs	400	50.5	21.5
Use of financial resources effectively in Tanzanian LGAs	400	55.1	21.3
Use of financial resources economically in Tanzanian LGAs	400	66.2	21.8
The overall use of financial resources in Tanzanian LGAs	400	58.5	16.4

3.2 INFLUENCE OF ETHICS ON FINANCIAL PERFORMANCE IN TANZANIAN LGAS

Another objective of the paper was to determine influence of ethics on financial performance. The aim was to find out association between ethics (financial ethical values and national code of ethics and conduct for public service) and financial performance.

3.2.1 PARAMETER ESTIMATES OF ORDINAL LOGISTIC REGRESSION

Parameter estimates of ordinal logistic regression is shown in Table 8. In the Parameter Estimates Table 8, there are coefficients, their standard errors, Wald test statistics, associated p-values (Sig.), and the 95% confidence interval of the coefficients and odds ratios. At the top of the parameter estimate output the thresholds are shown. Thresholds indicate where the latent variable is cut to make the three groups (low, moderate, high) that we observe in our data. The threshold coefficients present the point where financial performance might be predicted

into the three categories (low, moderate and high). From Table 8 the threshold indicates that financial performance might be predicted at either low or moderate levels.

The results from the analysis show that the variables accountability, transparency and conflict of interest were significant at the 5% level (0.05) of significance. It is important to note that while p-values less than alpha levels are statistically significant, p-values greater than alpha levels are not statistically significant. Regarding accountability, it is probably true, as in theory LGAs in Tanzania were held accountable for service delivery through the 2000 Client Service Delivery Charter (CSDC) (Mdee and Thorley, 2016). As for transparency, the findings were contrary to findings by Muro and Namusonge (2015) that, in Tanzanian LGAs, there is a culture that does not promote transparency. Again, the conflict of interest is minimized contradicting studies which have reported that the public sector has a wide range of stakeholders, and each of the stakeholders has their own interests, resulting in a variety of expectations which are imposed on the public sector (Mimba *et al.*, 2007; Bjork *et al.*, 2014). Based on the theory which guided this paper, whether LGAs employees' decisions were guided by financial consequences, the findings show that 256 (63%) of all the 400 respondents reported that decisions regarding use of municipal funds considered the consequences such as the wellbeing of citizens. Due to that, LGAs duties considered ethical values such as transparency [195 (48.8%)], avoidance of conflict of interest [192 (48%)], trust [207 (51.8%)], integrity [218 (54.5%)] and accountability [200 (50%)] as reported by the respondents.

Also the results from the analysis show that the variables integrity, trust and national code of ethics and conduct for public service were significant at the 10 percent level of significance. This is to say that the p-values for the variables integrity, trust and national code of ethics and conduct for public service were less than 0.1. These findings are consistent with those reported by Aiko *et al.* (2016 cited by Mdee and Thorley, 2016) which indicated that trust in Tanzania LGAs declined between 2005/06 and 2014/15. Concerning the national code of ethics and conduct for public service, the findings contradict what Gilman (2005, cited by Mtandi, and Chachage 2016) reported that knowledge of the ethics codes and codes of conduct were essential ingredients in the prevention of the unethical practices such as corruption. Additionally, the findings contradict Uyar and Ozer (2011) and Emerson *et al.* (2007) cited by Mtandi, and Chachage, (2016) where findings show that ethical orientation affects positively ethical professional commitment.

The parameter estimates table shows that the signs for integrity, accountability, transparency, conflict of interest, trust and the national code of ethics and conduct for public service were with negative coefficients. This means that those variables have negative effect on financial performance. This implies that LGAs with low level of integrity, accountability, transparency, conflict of interest, trust and the national code of ethics and conduct for public service have lower level of financial performance than LGAs with high level of integrity, accountability, transparency, conflict of interest, trust and the national code of ethics and conduct for public

service. These findings suggest that there appears to be a relationship between financial performance and ethics. From the observed significance level in Table 8, we can see that all explanatory variables are factors that affect financial performance of Tanzanian LGAs.

Based on the small observed significance level, we cannot accept the null hypothesis. Therefore, the null hypothesis H_0 that there is no significant relationship between ethics and financial performance in Tanzanian LGAs was not accepted and instead the alternative hypothesis H_1 that there is significant relationship between ethics and financial performance in Tanzanian LGAs was confirmed. High values of Wald statistics show that the corresponding predictor variable was significant. In short, the findings indicate that financial performance in Tanzania LGAs is influenced by integrity, accountability, transparency, conflict of interest, trust and the national code of ethics and conduct for public service. While integrity, trust and national code of ethics and conduct for public service are variables that have no significant association with financial performance; accountability, transparency and conflict of interest; were found to be more significantly associated with financial performance in Tanzanian LGAs.

Table 8: Parameter estimates of ordinal logistic regression

		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[Financial performance = 1]	-2.987	0.292	104.620	1	0.000	-3.559	-2.414
	[Financial performance = 2]	0.551	0.219	6.308	1	0.012	0.121	0.981
Location	[Integrity=1]	-21.487	0.000	.	1	.	-21.487	-21.487
	[Integrity=2]	0.072	0.227	0.100	1	0.752	-0.373	0.516
	[Integrity=3]	0 ^a	.	.	0	.	.	.
	[Accountability=1]	-1.635	1.540	1.128	1	0.288	-4.653	1.382
	[Accountability=2]	-0.188	0.238	0.623	1	0.030	-0.653	0.278
	[Accountability=3]	0 ^a	.	.	0	.	.	.
	[Transparency=1]	-1.904	0.834	5.211	1	0.022	-3.539	-0.269
	[Transparency=2]	-0.468	0.223	4.422	1	0.035	-0.904	-0.032
	[Transparency=3]	0 ^a	.	.	0	.	.	.
	[Conflict of interest=1]	-1.846	0.617	8.957	1	0.003	-3.054	-0.637
	[Conflict of interest=2]	0.246	0.241	1.045	1	0.307	-0.226	0.719
	[Conflict of interest=3]	0 ^a	.	.	0	.	.	.
	[Trust=1]	0.091	0.404	0.050	1	0.822	-0.701	0.882
	[Trust=2]	-0.024	0.235	0.010	1	0.919	-0.485	0.437
	[Trust=3]	0 ^a	.	.	0	.	.	.
[Code of ethics=1]	-0.880	2.196	0.161	1	0.689	-5.185	3.424	
[Code of ethics=2]	-0.044	0.222	0.040	1	0.841	-0.479	0.390	
[Code of ethics=3]	0 ^a	.	.	0	.	.	.	

Link function: Logit. This parameter is set to zero because it is redundant.

4. CONCLUSION AND RECOMMENDATION

The general purpose of this study was to investigate the influence of ethics on financial performance in Tanzanian Local Government Authorities. On the issue of level of financial performance, the findings indicated financial performance had moderate level in Tanzanian Local Government Authorities. Based on these findings, it is concluded that although the level of utilization of public resources in Tanzanian LGAs was gradually

improving economically, efficiently and effectively; few employees were undermining this level. Thus, it is recommended that, Tanzania Public Service College, which is mandated to train public servants, should design, train and monitor ethical practices in the public sector in Tanzania in order to counterbalance employees undermining level of financial performance.

Concerning influence of ethics on financial performance, the findings showed that while ethical variables accountability, transparency and conflict of interest had significant influence on financial performance at the 5% level, integrity, trust and national code of ethics and conduct for public service did not have significant influence on financial performance. Following this, it is concluded that there is a significant relationship between financial performance and ethics. Therefore, it is recommended that since ethics has significant influence on financial performance, it is important that the public service employees take a proactive measure by considering these variables seriously in their operations.

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