Organization Governance and Performance of the public sector in Nigeria: The Nexus

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Abstract

This study examined the effect of corporate governance practices on the performance of government organizations in Nigeria. Twenty government establishments in Enugu,the area of study were studied. Questionnaire and face to face interview were used in the collection of data. The hypotheses were were tested using the Spearman's rank correlation. Our findings revealed among others that there is relationship between corporate governance and
the performance of corporate governance regulatory agencies. Corporate governance mechanism in Enugu state public organizations does not conform to the lay down standards. Based on the findings the major recommendations proffered include that corporate governance regulatory agencies should discharge their duties without fear or favor. They should shun all forms of gratification and render objective report on government organizations.

Keywords: Performance, governance, regulatory agencies, organization

Introduction

Corporate governance which is hitherto seen as the foundation for good corporate performance has received lack-lustre attention from corporate bodies globally for a considerable length of time (Ejiofor, 2009). This attitude which bordered on neglect of corporate strategies may have eventually led to the recent global high profile corporate failures. Notable among such failed corporate bodies are HIH Insurance and One-Tel both in Australia, Maxwell Communications Corporation, and Bank of Credit and Commerce International (BCCI) both in the United Kingdom; Enron and Worldcom both in the United States and Parmalat in Italy. All these failures have been attributed to poor corporate governance (Tennyson,2010)

In Nigeria, the story is not different. There has been several corporate failures and large-scale misappropriation of funds in the recent past in Nigeria, involving public organizations such as AVOP Oil, Nigersteel Company , Anambra State Motor Manufacturing Company , Nigeria Coal Corporation, Cooperative and Commerce Bank, African Petroleum Nigeria Limited, and many of new generation banks that could not pass through the recapitalization process. These failures raise some fundamental questions such as management style, audit independence, the nefarious practices of board members, ethics, professionalism and conflict of interest. Today, almost all the surviving government establishments in Nigeria are sick and ailing. Major among the ailing government establishments in Nigeria include: Ajaokuta Steel Industry, Nigerian refineries, Nigergas Ltd Enugu, Flour Mill Company Enugu, etc. The primary aim of establishing these organizations have not been fully realized. Bies (2004) contends that the sheer scale of fraud, embezzlement and graft observed in some of these failed government establishments has brought into question the reliability and effectiveness of present-day operational and compliance control mechanism and financial reporting generally. Sheifer and Vishny (1997) argue that corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on the investment. It is concerned with promoting corporate fairness, accountability and transparency.

In spite of the fact that there are regulatory bodies and agencies established to oversee corporate governance in Nigeria and ensure compliance with laid down rules and regulations, yet the corporate failures have escalated. The implication of this is that the regulatory agencies need to be reformed and restructured to reposition them and make them more effective and relevant in the 21st century.

At this juncture, we pose the following research questions to guide this research enterprise: Why do Government organizations in Enugu State perform abysmally while many state owned establishments in other countries in Europe, Asia and America are doing well? Why are government establishments performing poorly, while their counterparts in the private sector are doing well? Why is it that Enugu State Television is fledgling, while African Independent Television, a private television is doing well? Why is that Enugu State Transport Company is not doing well while ABC Transport , The Young Shall Grow, Ekene Dili Chukwu all owned by private people are doing well?

Are the success stories of the private companies and state owned enterprises in some other third world countries like India, Indonesia etc hinged on their adherence to corporate governance standards? Are Enugu State Government owned establishments' lack-luster in the application of corporate governance standards or are there other extraneous factors militating against the performance of those government establishments?

Hypotheses

(1) There is significant relationship between corporate governance and the performance of corporate governance regulatory agencies.

(2) Corporate governance mechanism in Enugu State government establishments conforms to standard.

Methodology

The data for this study were gathered through the administration of questionnaire on the General Managers and Accountants of the twenty-five (25) government establishments in Enugu State of Nigeria. The questionnaire was designed in multiple choice method: - Very low extent, low extent, indifferent, high extent and very high extent. The extent was measured from 1 to 5 as in Likert –scale, while 1 represents the least extent, 5 represent the highest extent.

The questionnaire's validity and reliability were determined through content validity and its reliability determined through a pilot survey of eight (8) general managers of selected companies in Enugu State. A split-half method was adopted and a reliability co-efficient of 73.82% was obtained. The data collected were analyzed using the mean score while the hypotheses were statistically tested with the Spearman Rank Order correlation co-efficient.

Literature Review

Corporate Governance and Board Performance

Osisioma and Osisioma (2002) define a well –governed establishment as one that had mostly outside directors, who had no management ties, undertook formal evaluation of its directors, and was responsive to investor's requests for information on governance issues. The size of the premium varied by market, from 11% for Canadian companies to around 40% for companies where the regulatory backdrop was least certain (those in Morocco, Egypt and Russia). Some researchers such as Bhagat and Black (2006) found support for the relationship between frequency of meetings and profitability. Others have found a negative relationship between the proportion of external directors and firm performance, while others found no relationship between external board membership and performance. Ile (2002) argues that companies with more independent boards do not perform better than other companies. It is unlikely that board composition has a direct impact on firm performance. Tricker (1994) categorized the role of the directors into two main functions: the performance and conformance functions. In the performance function, the directors focus on strategic and policy issues for the future. This involves setting corporate direction and contributing to the ongoing performance of the entity. In the conformance role, the board supervises senior management, ensuring that the establishment adheres to the predetermined policies, procedures, plans or budgets and is achieving the performance required, as well as demonstrating proper accountability for the company's activities. The effectiveness of any board is reflected on how well the board undertakes its performance and conformance role (Rwegqasira, 2003). He also listed the duties of the board as setting corporate strategy – overall direction, vision and mission, hiring and firing the chief executive officer and top management, controlling, monitoring, supervising management and safeguarding shareholders' interests. Okeahalam and Akinboade (2003) argue that the board of directors provides rules, policies and direction for the organization's personnel. They see the director or a company as a custodian and trustee of the company's resources and property. They cited most of the regulatory regimes like Ghana's companies code of 1963 (Act 179), Nigeria's companies and Allied matters decree (CAMD) of 1990 and the principles of the common Wealth Association for Corporate Governance (CACG) as requiring the companies board of directors to prepare financial statements reflecting a true and fair view of the operations of the company during the financial year and also the profit and loss account of the company for that period. They are also required in the task of safeguarding the assets of the establishments, to also detect fraud and irregularities.

All the above agree that the board as a control mechanism, plays an important role in corporate governance, particularly in monitoring and directing management for the achievement of corporate goals which invariably includes fostering growth through strategic policy initiative, adding value to shareholding, profit maximization, aligning the interests of stakeholders, increasing market share etc. In doing this, they direct the affairs of the establishment by setting the parameters and ensuring the organization is well run. However, in practice, the boards vary considerably in the emphasis they place on different components of their governance role. While some play major role in strategy development and policy making, others leave the responsibility to the chief executive and concentrate on monitoring and supervising the executive.

Standardizing Corporate Governance in Nigeria

The bitter experience of corporate failures in Nigeria and across the globe underscores the importance of effective corporate governance procedures to the survival of the macro economy. The crisis demonstrated in no unmistakable terms that "even strong economies lacking transparent control, responsible corporate boards and shareholder's confidence collapse" (.Sanakue (2000). In addition to forestalling corporate collapse, interest in corporate governance globally and in Nigeria in particular is associated with its positive link to national growth and development.

The basic Company and Allied Matters Decree (CAMD) of 1990, which makes it mandatory for all companies operating in Nigeria to be registered. CAMD section 357(1) also requires all limited liability companies to appoint an auditor to report on their financial statements and abide by all financial reporting processes. Other company laws guiding business operation in Nigeria include:

Nigeria Enterprises and Promotion Decree 1989, Prices and Income Board 1977, Patent and Designs Decree No. 60 of 1977, Factory Act of 1987, Workman's Compensation Act of 1987, Nigeria Deposit Insurance (NDIC) of 1985, Annual Credit Guidelines of Central Bank of Nigeria , Bankers and other Financial Institution Act (BOFIA) 1991, Insurance Act 2003, investment and Security Act 1999, Nigeria Stock Exchange (NSE), Corporate Affairs Commission and recently National Agency for Drug Administration and Control (NAFDAC). All these laws, like corporate governance codes are aimed at formalizing the concept of accountability by the board of directors, while stipulating unrestricted disclosures of all aspects of corporate affairs and certification that the published accounts represent a true and fair view of the enterprise affairs.

In spite of this multiplicity of laws to guide the operation of business entities in Nigeria, they have not been able to prevent the collapse of many government owned establishments in Nigeria or the distress recorded in the banks and other financial institutions in Nigeria.

To stem the tide, Securities and Exchange Commission (SEC) in collaboration with the Corporate Affairs Commission (CAG) instituted the Atedo Peterside led committee with the mandate to identify weakness in the current corporate governance (existing company laws) and fashion unnecessary changes (Ejiofor, 2009). This is with the view to improve corporate governance practices and align with the international best practices. The Committee issued the report on corporate governance of public companies in Nigeria and Code of Best Practices (2003). The document targets the board of directors as leaders of corporate organizations, while stating the responsibilities of shareholders and other professional bodies. The Central Bank of Nigeria also introduced another separate code of corporate governance for banks (2006), to take care of post consolidation conflicts and other issues. While corporate governance is being implemented in banks, the same may not be said of the public sector. The reason is not far fetched. While the code on corporate governance for public companies in Nigeria is not compulsory, that of CBN attracts sanctions. Ugo (2010) argues that the problem of poor corporate governance standard in Nigeria lies in poor enforcement.Eroke (2007) cited the Securities and Exchange Commission survey report (2003), which revealed that corporate governance was at rudimentary stage with only 40 percent of quoted companies having code of corporate governance in place.

Ensuring Corporate Governance Standard

(1) *Risk Appetite and management*

(a) Risk appetite: An organization must convey to its management staff its risk appetite and the "no go" areas. This would be specified in its strategic plan, noting the risk return profile/trade-offs.

(b) Risk management:

(i) Strategic Risks –

- policy development
- corporate culture
- competition risk
- product risk unclear and/or unviable and/or badly implemented strategic plan.

(ii) Market

- interest rate risk
- liquidity risk
- investment risk
- foreign exchange rate

(iii) Credit

- loan monitoring
- faulty credit analysis
- loan concentration
- poor skills

(iv) Operational

- people risk ethics
- recruitment (poor quality graduates in some cases)
- system risks
- control compliance

(v) Environmental

- corruption (diversion of government funds, freeze on account, sanction on banks)
- Advanced fee fraud (419)
- Armed robbery on government organizations
- cloning of "Certificate of Occupancy" C of Os
- the value system that places undue emphasis on money by all means.

2. Financial Disclosure

Robust financial disclosure is vital. This strengthens organizational discipline and helps stakeholders to assess the organization.

3. Effective Information Technology Governance

To ensure secure use of technology to expand and protect stake holder's value and to imrprove service delivery.

* It is critical input in the strategic plan and in overall governance of an organization.

* Top management must be ready to assist in leveraging it to increase efficiency and in managing its risks.

4. Coordination and Effective Supervision

The government through regulations and supervision coordinate the activities of government owned establishments.

(5) Adherence to International Best Practices

This is particularly in the areas of strategic plan and implementation, risk management, performance evaluation and succession planning.

(6) Balanced Score Card Approach

In recent times, what is called a balanced score card approach was evolved to produce "a framework to help organizations achieve better operating results, superior governance and greater shareholder value.

* This strategy helps to link financial results with the key drivers of the business including customers, employees and the internal processes.

* Enterprise balanced score card.

* Board balanced score card

* Executive balanced score card

(7) Enabling Environment

* A conducive social climate promotes good corporate governance.

* A corrupt socio-economic environment inhibits performance.

(8) Elimination of Corporate Abuses or Weaknesses

* Window dressing of financial reports

* Ever-greening credits

* Insider loans/insider abuses/related party transactions

* Absence of contingency plans.

* Loan concentration/poor risk management

* Single obligor limits violations

* Government equity still high in some public organizations.

Presentation and Analysis of Data

The data for this study were presented in a frequency table and were analyzed using the mean scores. General Managers formed sample 1 denoted as (X_1) while the accountants formed sample 2 denoted as (X_2).

The respondents were asked whether there is any relationship between corporate governance and the performance of government organizations, and their responses were as presented in table 1 below.

Table 1 – Respondent's opinion on the relationship between corporate governance and the performance of government organizations

Responses	X_1		X_2	
	Scores	Frequency	Scores	Frequency
Very low extent	1	2	1	4
Low extent	2	5	2	4
Indifferent	3	1	3	0
High extent	4	9	4	11
Very high extent	5	8	5	6
Total	**15**	**25**	**15**	**25**

Source: Field survey, 2011

The analysis of data presented in table 1 above is shown in table 2 using the mean score

Table 2 : Computations of the weighted mean scores

Reponses	X_1			X_2		
	Scores (x)	**F**	**FX**	**Scores (X)**	**F**	**FX**
Very low extent	1	2	2	1	4	4
Low extent	2	5	10	2	4	8

Indifferent	3	1	3	3	0	0
High extent	4	9	36	4	11	44
Very high extent	5	8	40	5	6	30
Total		**25**	**91**		**25**	**86**

Source: Field Survey, 2011

Weighted mean scores = 3.54

Since the computed means score (3.54) is greater than the expected mean (3.0) , it implies that corporate governance has a relationship with the performance of public organizations in Nigeria.

The respondents were asked to indicate whether corporate governance mechanism in Enugu State government establishments conforms to standards and their responses were as presented in table 3 below:

Table 3: Respondent's opinion on the agreement of corporate governance with lay down standards

Responses	**X_1**		**X_2**	
	Scores	**Frequency**	**Scores**	**Frequency**
Very low extent	1	2	1	4
Low extent	2	5	2	4
Indifferent	3	1	3	0
High extent	4	9	4	11
Very high extent	5	8	5	6
Total	15	25	15	25

Source: Field Survey, 2011

The data presented in table 3 above were analyzed using the mean score as shown in table 4 below.

Table 4 – Computation of the weighted mean scores

Responses	**X_1**			**X_2**		
	Scores (x)	**F**	**Fx**	**Scores (x)**	**F**	**Fx**
Very Low Extent	1	1	1	1	1	1
Low Extent	2	4	8	2	2	4
Different	3	2	6	3	1	3

High Extent	4	10	40	4	12	48
Very High Extent	5	8	40	5	9	45
Total		**25**	**95**		**25**	**101**

Source: Research Survey, 2011

$X_1 = 95/25 = 3.80$ $\qquad$ $x2 = 101/25 = 4.04$

Weighted mean scores = 3.92

Since the computed score (3.92) is greater than the expected mean (3.0), it implies that corporate governance mechanism in Enugu State government establishments does not conform to standards..

4.1 TEST OF HYPOTHESES

The hypotheses earlier stated in this research work were tested in this section using the spearman's Rank correlation co-efficient.

H0[1]: There is no significant relationship between corporate governance and the performance of corporate governance regulatory agencies..

In testing the hypothesis, data presented on table 2 above were used.

Table 5: Test of Hypothesis 1 using Spearman's Rank Correlation Co-efficient using x_1 & x_2 data in table 2 above.

X_1	X_2	Rx_1	Rx_2	$(Rx_1 – Rx_2)$	$(Rx_1 – Rx_2)^2$
2	4	5	4	1	1
10	8	3	3	0	0
3	0	4	5	-1	1
36	44	2	1	1	1
40	30	1	2	-1	1
91	**86**	**-**	**-**	**-**	**4.0**

Source: Research Data, 2010

$$\text{Spearman's rank } (r_s) = 1 - \frac{6\Sigma((Rx_1 – Rx_2)^2}{n(n2-1)}$$

Where n = 5

$\Sigma((Rx_1 - Rx_2)^2 = 4.0$

Substitution: $(r_s) = 1 \frac{6(4)}{5(5^2-1)}$

$r_s = \underline{\underline{0.80}}$

At 0.50 level of significance and n = 5;

R_s critical = $\underline{\underline{0.90}}$

Decision: Since the computed P–value is 0.80, it implies that there is a relationship between corporate governance and the performance of corporate governance regulatory agencies, though the relationship is not significant because the P-value computed (0.80) is less than the P-value critical (0.09).

$HO_{2:}$ Corporate governance mechanism in Enugu State government establishments conforms to standards.

Table 7: Test of Hypothesis 2 using Spearman's Rank Correlation Co-efficient using x_1 & x_2 & x_2 data in table 5 above.

X_1	X_2	Rx_1	Rx_2	$(Rx_1 - Rx_2)$	$(Rx_1 - Rx_2)^2$
1	1	5	5	0	0
8	4	3	3	0	0
6	3	4	4	0	0
40	48	1.5	1	0.5	0.25
40	45	1.5	2	0.5	0.25
95	**101**	**-**	**-**	**-**	**0.50**

Source: Field Survey, 2011

Spearman's rank $(r_s) = 1 \frac{-6\Sigma((Rx_1 - Rx_2)^2}{n(n2-1)}$

Substitution: $(r_s) = 1 \frac{-6(0.5)}{5(5^2-1)}$

$r_s = \underline{\underline{0.98}}$

Level of significance	=	0.05
Degree of freedom	=	5
r_s critical	=	0.90

Decision: Since the computed P–values 0.97 is greater than the critical P-value 90.90), it implies that corporate governance mechanism in Enugu State government establishments does not conform to standards.

Summary of Findings and Recommendations

The results of the analysis revealed that:

(1) There is a relationship between corporate governance and the performance of corporate governance regulatory agencies. The implication is that the regulatory agencies are performing well. Thus the problem lies on the recalcitrant nature of the leaders of the government establishments who find it difficult to abide by the lay down rules and regulations.

(2) The corporate governance mechanism in Enugu state government establishments does not conform to the lay down standards which goes to agree with the finding number 1 above. The establishments fully owned by the government were found to be performing worse than those the government jointly owned with private individuals. The problem of performance not agreeing with the standards is a problem that is jointly shared by the mangers and members of the board of the establishments. There is no gainsaying that this ugly situation has resulted to poor service delivery by government owned establishments in Enugu State.

(3) The oral interview and literature further revealed that the problem is compounded by external and internal factors such as government and supervisory ministries interference, poor funding and lack of sustained management development programme.

Recommendations

In the light of the foregoing , the following recommendations have been proffered:

(1) Government should sanction any government establishment that fails to abide by the corporate governance standards in force. Such sanction could include denial of fund, temporary close down, lay off of defaulting officers and withholding of salaries of defaulting officers.

(2) Full autonomy should be allowed to government establishments so that they could perform better.

(3) The government and supervising ministries must draw a line between supervision and usurpation of powers of the board.

(4) Corporate governance regulatory agencies should discharge their duties without fear or favor. They should shun all forms of gratifications and render an objective report on government establishments.

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