Corporate governance in Nigerian Higher Education: Issues and challenges.

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Abstract

Many researches have been conducted in the area of corporate governance. However, few works have been carried out on the compliance of corporate governance principles in relation to government institutions of learning. The few papers that were found were on universities and not even in the Nigerian context and none on the polytechnics. This study intends to feel the existing gap. It examines issues and challenges relating to corporate governance in Nigerian higher education which comprised of the Universities, Polytechnics and Colleges of Education. There were many crisis in Nigerian higher education attributed to various factors by different authors and researchers, however, corporate governance is a major factor to this unstable structure in Nigerian higher education. Using qualitative method, thirty six principal officers drawn from six different categories of government owned institution with agency theory and stakeholder theory underpinning the theoretical framework. It was found that four factors are responsible for the challenges in achieving effective corporate governance in Nigerian higher education. These factors include funding, political interference, law and leadership.

Keywords: Corporate governance, Compliance, Nigerian higher education

1. Introduction

Nigerian higher education is facing enormous challenges which are making it difficult for the sector to achieve its aims. The challenges arise from but not limited to ownership, funding and access to higher educational institutions in Nigeria. Therefore, the Nigeria higher education system has not been able to meet the yearnings and aspirations of Nigerians (Adeyemi, 2011) because of the crisis facing the sector over the past three decades. Is this crisis has to do with corporate governance? The Nigerian National Policy on Education (1981, p.72), which ‘covers the post-secondary section of the national educational system which is given in Universities, Polytechnics, and Colleges of Technology, Colleges of Education and Advanced Teachers Colleges, correspondence colleges and such institutions as may be allied to them’. Having gone through many related literatures, it was discovered that very few researches were conducted on corporate governance in relation to government institutions particularly in relation to higher education. The few papers that were found the researches are conducted on universities not in Nigerian context and none on polytechnics (M. M. S. Khan & Sethi, 2009) This study intends to feel the existing gap that has been found.

The aim of this paper is to examine the perspectives of corporate governance in Nigerian higher education. The paper seeks to explore the concept of corporate governance and its relevance to Nigerian higher education and the extent to which the understanding of the concept by all stakeholders will address the many challenges inherent in the sector.

There are different stakeholders in Nigerian higher education. Different interest group caused tensions in the sector. This hinders efficiency and quality in our educational system. However, it is internationally accepted that corporate governance is an important technique for organization seeking efficiency improvement and ultimately harmonise the disagreement between management, and the boards on one hand, and all other stakeholders on the other and reduce tension. (Demidenko and McNutt, 2010).

The disagreement and tension arising from governance in the Nigerian higher education system is similar to profit oriented companies. The governance problems are found in large companies such as Adelphia, Enron and WorldCom. Many researches therefore linked governance and corporations’ features (Adeolu & Afolabi, 2013). The issue of governance is also prevalent in developing economies too. Cadbury Nigeria Plc is an example (Olusoji, 2010). In India, the cases of Harshad Mehta in relation to security scam and Ramalinga Raju which has to do with Satyam scandal (Dash, 2012) are evidence of governance.
Generally, corporate governance discussions, writings and researches are mostly associated with the private sector of the economy. It is, however, on record that some researchers have worked on the relevance of corporate governance to the public sector such as financial sector (Handley-Schachler, Juleff and Paton, 2007). However, our focus is on higher education. Martin et al (2012), opined that there was a need for public sector corporate governance in line with the perception of citizens and communities to enhance service quality. Chris (2006) proposed that even though social enterprises fell within the non-profit sector, some of them however, exhibit some traits of profit organisations. As such certain aspects of corporate governance principles are applicable to them. Mitsuhiro (2007) stressed the possibility of improving government in efficiency if corporate governance mechanisms are employed. These and other similar research findings therefore prompted this researcher to examine some governance related issues in the Nigerian government higher institutions.

2. Literature Review

Corporate governance has attracted the attention of many researchers since the last two decades (Adegbite, 2010). The need for corporate governance became paramount as a result of conflict of interest between management and the shareholders which is a consequence of separation of ownership from management (H. Khan, 2011). Corporate governance is described by (Jamali, Hallal, & Abdallah, 2010) citing (Cadbury 2000) as a method of consensus in which shareholders of companies protect their interest by exercising control over management. Most of the definitions in the code of corporate governance put forward by various companies and regulatory agencies across the world are associated with control and supervision of management (Talamo, 2011). Under this circumstance, shareholders are struggling to get the highest return possible as compensation for their investment either in form of dividends, bonuses or increase in share value. The managers on the other hand want to have as much compensation as possible in exchange for their managerial skills and efforts. However it is a known fact that the objectives of both the managers and the shareholders cannot be achieved without the efforts of some stakeholders. These comprise of the employees of organisations, creditors and a host of others. In order to accommodate the interest of other stakeholders, (Mostovicz, Kakabadse, & Kakabadse, 2011) citing (Dignam and Lowry 2006), define corporate governance as a combination of procedures, principles, laws and institutional structures that are meant to directly or indirectly influence the conduct of organisations with regards to its stakeholders. The financial malpractices spread around the world prompted many stakeholders to swing into action in order to determine various issues related to the implementation of corporate governance codes.

2.1 Firm performance and corporate governance

It is expected that good corporate should lead to better performance. Some research outcomes indicate that indicate that there is positive relationship between corporate governance and firm performance (Mohammed, 2012; Obiyo & Lenee, 2011). The role of Boards of Directors is emphasised in a research conducted to determine the relevance of Internal auditors in Nigerian Banking sector corporate governance practice. Twenty-three internal auditors were selected from different Banks. Interviews were conducted and questionnaires were administered. It was discovered that in most of the Banks, auditors were over powered by the managements (Abiola, 2012). The need for proper use of public relations to boost the level of enlightenment of the shareholders in particular and the public in general on the responsibility of all concerning corporate governance (Oso & Semiu, 2012). On the effect of media on corporate governance, (Dash, 2012) discovers that.

2.2 Regulatory Institutions and corporate governance

The role of regulatory institutions in enhancing the implementation of corporate governance has been discussed in various ways by different scholars. In Nigeria the authorities of the corporate affairs commission, the Nigeria stock exchange as well as Securities and Exchange Commission have vital roles to play in enhancing the implementation of corporate governance principles. Having gone through the laws of corporate governance and various codes in the Nigerian regulatory settings, it is discovered that some of laws are due for review. The findings also point out that some of corporate governance institutions lack the where withal to handle the enforcements needed to enhance effective governance. More so, he pointed to the fact that corruption is another stumbling block against proper implementation of the codes (Adegbite, 2012). Proliferation of laws and codes of corporate governance is identified as part of the problems inhibiting compliance. The paper analysis securities and exchange commission 2003 code, the central bank of Nigeria 2006 code, pension commission 2008 and national insurance commission code 2009. It is discovered that of some the laws in Nigeria conflicting as such the contradictions provide easy way out for organisations that are unwilling to implement the codes (Demaki G.O, 2011). An evaluation of the new codes of corporate governance is conducted by (Adewuyi & Olowookere, 2013) to ascertain the effectiveness of it implementation. They discover that there is no significant improvement. This is due to the fact that many companies are using some aspects of the old code alongside the new ones.
2.3 Auditors and corporate governance

The internal audit unit of every firm form part of the internal control structure on which the audit committee of the Boards of Directors depend. Internal auditors of nine Banks out twenty-four were selected as sample in Nigeria. Based on the response of the twenty-three internal auditors interviewed with other facts that gathered by the researcher, it was concluded that external auditors were not independent of management and in most cases the internal auditors were overpowered by the management. As such their effectiveness cannot be guaranteed (Abiola, 2012).

2.4 Non executive Directors and corporate governance

A research on the role of non executive Directors in the decision making of corporate entities at various levels was conducted. To determine it effect on enhancing corporate governance within the context the Ireland. In an attempt to protect the interest of shareholders, government in Island enacted a law mandating all covered companies to appoint at least one Director but not more than two non-executive Directors to their boards. The research concluded that most of the co-opted Directors only played advisory roles. Very few of them had the opportunity of taking part in strategic decisions involving corporate governance (Spitzeck & Hansen, 2010)

2.5 Relevant education and corporate governance

Two separate researches are conducted. The first looks at the relationship between accounting education and corporate governance practice as reflected in company performance. The authors (Georgiou, Koussis, & Violaris, 2012) conducted the research at Fredrick University in Cyprus. They found that the University was not imparting enough corporate governance knowledge to their students. By implication, their deficiency is reflected in their inability of the graduates to implement corporate principles. The research findings cannot be generalised because it is limited to Cyprus. The work of (M. M. S. Khan & Sethi, 2009) has come as complement the previous one. It examines the link between graduate training on corporate governance in schools and their subsequent practice on the field. It is therefore conducted India and Pakistan as study context representing the developing economies of the world. It is concluded that; the greater part of corporate governance knowledge acquired by the students are from outside the schools. The little knowledge they got from within was taught under management headings. There is a varying degree of teaching of the subject between India and Pakistan. And lastly, it was discovered that the corporate governance practice required in the industry, was far more than what the Business schools were impacting on their students.

2.6 Corporate governance and culture

The impact of culture on corporate governance is researched on and various definitions of culture given and it is narrowed down to the Nigerian context by using Cadbury Nigeria Plc as a case study. It concludes that the failure of the company had cultural undertone. The outcome of the research showed that most of the stakeholders in the company especially the workers knew there were problems long before it get out of hand. But because of their cultural affiliations with the then Managing Director, they kept quiet (Oghojafor, 2012).

2.7 Corporate governance and other related issues

A research was conducted on the relevance of corporate governance on state owned enterprises. It looks at the 2006 revised Indonesian code of corporate governance which appears to be unique. This code incorporated the State Owned Enterprises (SOE) that is regulated under the law. The law recognizes two types of SOEs. The general companies are those ones that are to operate for the provision of social services purposes. While the second category comprises of those that are businesses oriented. The government represents members of the public as ordinary shareholders. The objective of this paper is to compare the Indonesian code to the Anglo-American code which is the dominant. And to determine whether the present Indonesian code of governance is capable of solving all the inherent problems related to corporate governance generally. He found that the Indonesian code was quite different from the Anglo-Americans’. He discovered that SOEs had to contend with multiple objectives of protecting the public interest of provision of employment for example in addition to being of commercial outfit. They also have other problems such as; political interference, appointment of unprofessional board of directors and lack of transparency. He concluded that seemed to be incapable of solving the corporate governance problems in Indonesia (Kamal, 2010)

The operations of Islamic finance institutions are assessed in relation to corporate governance. The research is conducted to determine the relationship between corporate governance and protection of Unrestricted Investment Account Holders UIAH rights under the Islamic Financial Institutions IFIs. Qualitative method was used and sixteen managers were interviewed from twelve IFIs drawn from four countries. It is found that the rights of these categories of account holders were not adequately catered for. The sample size for the research is too small and can therefore not be generalised (Al-saad & Magalha, 2013).
3. Theoretical framework

This paper used Agency theory as the theoretical framework. Agency provides tools for a more sophisticated analysis of the relationship between the government and the management of the Nigerian higher institutions (Cooney, 2007). There are different human actors operating within institutionalised organizational structures of Nigerian higher institutions. Higher educational institutions in Nigeria tend to have a number of stakeholders including the government, management, parents and students. Some of these stakeholders do not have contractual relationship. Agency arises from the actor's control of resources which will enable him to govern the organization. Agency according to McPhee (2004) articulates characteristic powers of human and socially capable agents. However, the management of the institutions does not have absolute control of resources which affected the governance style adopted. It is the agency that brought about the continuous change in the structure of the Nigerian higher education. This is because structure and agency are interdependent and not disconnected (Willmott, 1999). Nigeria currently, operates the 6-3-3-4 structure of educational system after it had tried many structures including, 6-5-4 and 6-5-2-3 system. The structure of the education system in Nigeria continues to change based on the aspirations of the government, the education programme and the style of administration, and is therefore not static. The 6-3-3-4 allows the pupils and students spend six years in primary school, three years in junior secondary school, three years in senior secondary school and finally four years in the university or the polytechnic. Corporate governance has come to resolve the agency problems that are typical of many contemporary corporations.

This research work also used the stakeholders’ theory. Stakeholders’ theory emphasises the importance of protecting the interest of all stakeholders not minding their legal interest in the organisations. This is done to improve organisation performance (Oruc & Sarikaya, 2011). The paper finds that there was positive relationship between ethics of care and stakeholder’s theory because of the common points of agitation they have. However some firms are found to engage in controlling engagement. This is a situation where firms only take care of only those stakeholders who are capable of conferring on them the particular legitimacy that is required (Ihugba, 2012).

This study is aimed at investigating the factors that are affecting the polytechnics compliance with regulations in Nigeria. Government educational institutions are parts of the nonprofit public organisations including the polytechnics. The Bain of technological development has been identified as having positive relationship with technological knowledge acquisition with necessary work attitudes and adaptation of important techniques that are suitable for each environment base on its needs. Polytechnics were established in Nigeria to take care of these needs (Aigbepue & Idogho, 2010). Apart from the main objective of the institutions, the schools become a source of direct employment for academic and non academic staff as well. They also generate indirect employment for other ancillary service providers in all their locations. These advantages form part of the reasons for the multiplicity of stakeholders in government polytechnics in Nigeria. Due to the nature of the study population, stakeholders’ theory is considered as the most appropriate underpinning theory for the research.

The following are the factors that impact on corporate governance in Nigeria: funding, the laws, leadership and political interference. The figure below shows the framework of the study.

3.1 The Research framework
4. Research Methodology

In order to achieve the objectives for which this research is being conducted, we used qualitative method. Qualitative research is a type of research in the socially constructed world where knowledge is usually obtained from observation and open interviews rather than experiments. The data are organised in a systematic way and critically analysed (Willing, 2009). Interview was conducted as a major source of collecting data. Saunders et al., (2009) argue that interview is a purposeful discussion between two or more people. The use of interview according to them can help in putting together valid and reliable data that can help in answering research questions. We used random sampling method to select the respondents. We used convenience sampling although there are different methods of non-random sampling in qualitative research, including purposive sampling, snowballing and theoretical sampling. We selected from the stakeholders those respondents that were likely to respond and were reachable. This type of method according to Bowling (2002) is usually used for exploring complex issues.

We interviewed thirty six (36) principal officers selected from six different categories of government higher institution. These includes federal university, state university, federal polytechnic, state polytechnic, federal colleges of education and state colleges of education. Indepth interview was conducted with three respondents from each institution. The selection of the institutions also spread across the three geopolitical areas of Nigeria.

5. Findings and analysis

The findings are group into four factors and the analysis based on these factors on corporate governance. These factors include Funding, Political interference, Laws and leadership. It was discovered that government owned Nigerian higher institutions did not comply with corporate governance principles. It was that one of the major challenges of corporate governance in Nigerian higher education is funding. Many respondents argued that inadequate funding from both the federal and state governments did not allow the managements of the institutions to govern the institutions in an acceptable way. Resource is a major player in corporate governance.

A Vice Chancellor said “We rely heavily on government subvention which is grossly inadequate to meet the expenses of the institution. Moreover, we are not in full control of the resources. Government might direct us to spend the resources on certain projects”. Generally, higher education in Nigeria suffers as a result of underfunding (Solanke, 2011). Salami, (2013) also pointed out that the major problem of Nigerian higher education is inadequate funding. He proceeds to mention the fact that the subvention the schools get from government are never adequate to cater for the powering the technological and industrial needs of the country. It was discovered that there were interferences from government in the administrations of Nigerian higher institutions. These interferences have hindered many higher institutions to govern as required. Recruiting quality candidates during the admission process becomes problematic with admission request from government officers.

“Although we have criteria for selecting and recruiting candidates into various courses, however, we normally receive admission requests from top government functionaries. Candidates on request lists might not have the same requirement like others but we must admit them”. A Rector. Under democratic system of government corporate governance is a legal matter and compliance with it requires political will to succeed (Daniel, 2010). Appointment of chief executives and the governing council of public owned polytechnics in Nigeria are within the exclusive power of governments of state and federal polytechnics respectively. These set of government appointees are normally answerable to the government. As such their decision cannot be completely divorced from political considerations which may be contrary to academic and economic reasons. Political interference is therefore considered as one of the variables that may influence the compliance of government polytechnics with the relevant laws and regulatory agency’s directives.

The effect of interference especially in the admission process according to a respondent is that such unqualified students are major source of crisis in order to cover up their inefficiency. They might engage in cultism and other violent activities which might result to the closure of the institution. One of the consequences of these is that such students may resort to violent behaviour which amounts to a disruption public peace (Waziri 2013). Nigerian higher institutions were established by law. For example, all Federal polytechnics in Nigeria were established by an Act parliament number 33 of 1979. The Act contains all relevant information related to the functions of the schools, appointment of all officers and their tenure of office, disciplinary process concerning all categories of staff and students, preparation and auditing of all accounts. Other content of the Act includes; appointment of the governing council and its sub committees.
All state polytechnics are however established by different Act of parliament of the affected states. The management of the schools is guided by the Acts. Governing councils are appointed by the states like their Federal counterparts. The law stipulated the governance and the structures of the institutions.

These institutions also have regulatory bodies. For example, issues related to the establishment of standards for different academic programmes are the exclusive responsibility of the National Board for Technical Education (NBTE). National University Commission (NUC) regulates the quality of Nigerian universities through accreditation exercise of various programmes. These include review of the standards and supervision and regular inspection the content of the standard such as; manpower requirements, equipments and other infrastructure facilities.

All polytechnics are under the obligation to carry out all their operations in line with provisions of Acts or edicts that gave rise to their establishment and also maintain the standards established by their supervisory authority. However, it was discovered that not all government institutions comply with the laws and regulations governing their institutions. Some institutions violate these laws in order to satisfy their visitors (government that established the institution). “Appointments of principal officers are contained in the conditions of service but there may be situation that the government will appoint the chief executive without following normal procedure for appointment. Political consideration and loyalty to the government are major factors for such appointment”.

A respondent. The effect of this is that the management will be governing the institution according to the dictate of the government that appointed him. Therefore, the principles of corporate governance will not be followed.

Leadership in the polytechnic settings are of four strata. Looking at it from the ascending order is the head of department whose office is in charge of running of a programme or more that are professionally similar and coordinating the manpower and all the facilities under the department. The head reports directly to the Dean of a Faculty. Even Heads of Departments are members of the Academic Board which is the highest decision making organ on academic matters.

Next on the strata is the Dean of each Faculty. The office coordinates the activities of all Departments. The Dean reports directly to Rector of the polytechnic who happens to be the academic as well as the administrative head of polytechnic. There are other non academic unit heads which includes; the Registrar, Bursar, Director of works and a host of others. Although the administrative arrangement varies from one polytechnic to another yet leadership style of the heads affect corporate governance. Lastly, on the strata is the Governing council. This comprises of group of government appointees with person serving as the head. It is the highest in the line of authority for many decisions taken at the level other offices aforementioned are subject to council approval.

It was found that leadership style differ from one institution to another. The personally and objectives of the leaders determine the nature of the administrative strategies used in the institution. Empirical researches indicate that there is evidence to support a positive relationship between transformational leadership behaviour of managers and performance of individual employees (Rica & Rica, 2011). According to a respondent “Some leaders have administrative experience. Their behaviour and performance are informed from different responsibilities that they have performed in the past. However, some chief executives that were appointed from industry other than education used to perform poorly because educational institutions have different characteristic from other sectors. Therefore, challenges in the educational sector are so enormous because of different stakeholders with varying interests”.

6. Conclusion
This paper has been able to identify certain factors in the Nigerian higher education which are militating against running the affairs following the acceptable ways and procedures to the supervisory agency. The factors are Funding, Political interference, Laws and leadership. This has therefore posed serious challenge to corporate governance in Nigerian higher education. Most of these institutions were not able to administer the institutions without deliberate interference from different stakeholders and agency. In other words if all government institutions are doing things right, there won’t be need for continuous change in structure, closure of the institutions and compliance to the rules. Moreover, the fact that not all government institutions face sanctions implies that some of them are playing the game according to the rules.

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