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Full length Research Paper

Political interference and corporate performance of public universities in Uganda

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This study examined the relationship between political interference, corporate governance and corporate performance in four public universities in Uganda. The study was prompted by institutional turbulences as a result of political interference in public universities. A cross-sectional and correlational study was conducted in four public universities in Uganda namely; Makerere, Kyambogo, Gulu and Mbarara. Multiple regression model was fitted using SPSS to determine the strength of the relationship and prediction of corporate performance. We offer evidence that political interference in these universities decision-making negatively affects their corporate performance. Political interference had a significant negative effect on corporate performance. The findings further revealed that corporate governance variables were significant in this study, specifically, board size, had a negative effect on corporate performance while policy and decision making had a significant positive relationship with corporate performance. There is an ongoing need for public universities to formulate policies and make decisions that can improve the overall operations, systemically; namely, in the areas of constituting manageable council and senate committees and minimal political appointees to realize improved corporate performance.

Key words: Political interference, corporate governance, corporate performance and public universities.

INTRODUCTION

Chang and Wong (2002) in their study highlighted the notion that political interference in enterprise decision-making is detrimental to corporate performance is well documented throughout the robust body of theoretical studies on corporate governance. It is frequently argued that by maintaining control over enterprise decision-making, politicians can use enterprises to pursue so-called higher national goals. They may also seek to control enterprises to achieve their own political and personal goals. Their pursuit of such goals may result in shareholders' inability to maximize wealth and thus in less favorable corporate performance. Krueger (1990) indicated that politicians tend to hire politically connected individuals rather than qualified individuals. Chang and Wong (2002) measured Political Interference in terms of involvement of politicians in decision making and in terms of numer of political appointees on board of directors. They constructed an index of party interference (PI) by averaging the level of involvement of the local party unit in all decisions.

$$PI_i = (\sum_{j=1}^{n} S_{ij})/n$$

where Sij is the level of involvement of the local party unit of company i in decision j, rated on a 5-point scale ranging from no involvement at all (score=1) to complete control (score=5) in 63 decisions (n=63). Covering 63 decisions, the index provides a relatively complete measurement of party interference in the companies' decision-making.

Empirical studies of the relationship between political interference in enterprise decision making and corporate performance are scarce, on the other hand, because it is difficult to identify objective measures of such interference. Most of the existing evidence for how political

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interference affects corporate performance, comes from studies that document the poor performance of state-owned enterprises compared with the performance of non-state owned enterprises. The logic here is that the corporate governance structure of state owned enterprises is associated with a higher degree of political interference and that their poor performance, thus supports the idea that political interference damages corporate performance (Shleifer and Vishny, 1994).

Two broadly defined theories co- exist in the corporate governance literature. One stresses the discipline of the market, claiming that threat of hostile takeovers and Leveraged buyouts in firms were sufficient to ensure full efficiency. Where managers neglect to invest in those projects that add value to the firm and it's shareholders but divert recourses to their own benefit, the financial markets act to restore good Governance. Goshi (2003) researched on Board structure, executive compensation and firm Performance in India, results obtained were that there was a threshold level of the size of the board at 11 and proportion of non executive directors at 73% beyond which the Performance of the firm starts decreasing. Piesses, (2005), carried out empirical research on Corporate Governance and firm performance in an international perspective and obtained conflicting results on the link between Corporate Governance and Firm performance.

Universities and other Tertiary Institutions in Uganda are governed by University and Other Tertiary Institutions Act 2001 and an amendment Act 2003. The Acts empower Universities to constitute governing boards; councils, appointments boards, senate and academic boards. The governing boards/University councils monitor and control performance of Universities and other Tertiary Institutions as stipulated by Act 2001 and an amendment Act 2003, (Geoffrey and Nicholson 2002; 2003).

According to Kyambogo University strategic plan 2006/07 a number of polices were approved by council that includes restructuring of staff, appointments, salaries and benefits. These have caused academic staff unrest at Kyambogo University. The academic staff took the issue to courts of Law, (Daily Monitor Newspaper, July 2005) which courts ruled in favour of the academic staff and ordered management of Kyambogo University to reverse the earlier decision on appointment letters. Kyambogo University council did not play its role to the satisfaction of the academic staff instead the courts of law had to resolve the matter. The legal costs paid by the University in addition to the time lost, and unrest caused disruptions in operations of University.

There was turbulence caused by the non-academic staff of Kyambogo University for fear that the University management could delay issuing integration letters to unfairly lay them off and replace them with other people, (Red Pepper News paper September 30, 2006). Makerere University council approved a new fees structure for the academic year 2005/2006 which were in the Makerere University strategic plan 2005/06 which caused public outcry and Government had to intervene and stopped the increment in fees, (Daily Monitor News paper August 22, 2005). Makerere University Business School Council in 2003 as an affiliated Institute of Makerere University approved new fees structure which included computer and medical fees recommended by Management in the strategic plan 2003/04 and were to be paid annually by all students. However, continuing students agitated and refused to pay computer and medical fees. This caused unrest in the student community to the extent of students disrupting lectures at MUBS campus (Daily Monitor Publications October 18, 2005). Mbarara University of Science and Technology has a debt of Shs 420 million as compensation to former owners of University Inn buildings since 1989 which the University Council and Top management have failed to settle and instead continue to appeal to Government for their rescue (MUST Annual Financial reports 1990 – 2005).

The University is under threat to be sued, (Red Pepper News paper September 11, 2006). The University Council and Top management by now could have put up measures to generate funds to clear the debt, therefore the continued indebtedness may cripple the financial performance of the University and may also retard the institutional life cycle. Red In the Red Pepper News paper September 11, 2006, Gulu University Academic Staff had a sit down strike protesting non- payment of Salary Arrears and non remittance to National Social Security Fund (NSSF Annual Reports 2005- 2006) and Uganda Revenue Authority (URA Annual financial reports 2005–2006) monies deducted from their salaries,. Public Universities continue to experience low revenue collections that do not match the expenditure figures, as evidenced in table 1 below.

Although council and senate in public Universities exist, Universities have continued to experience governance problems such as fees determination problems, payment schedules not respected, Student and staff unrest, staff welfare problems, legal action against councils, which could be attributed to corporate governance and political interference. If political interference remains unchecked, the Universities' corporate performance may be crippled. The purpose of the study was to establish the relationship between Political interference, corporate governance and corporate performance of public Universities in Uganda. The study was guided by the following questions;

a) What is the relationship between political interference and corporate performance?
b) What is the relationship between corporate governance and financial performance?

MATERIALS AND METHODS

Research design

The research study used cross sectional and analytical research

Table 1. Actual revenue and actual expenditure for the financial year 2004/05.

University	Actual revenue UGX	Actual expenditure UGX	Variance UGX
Kyambogo	20,345,236,770	22,345,632,123	-2,000,395,353
Gulu	6,050,535,230	6,567,254,246	-516,719,016
Makerere	54,658,205,038	56,933,077,000	-2,274,871,962
Mbarara	12,456,743,520	12,865,290,340	-408,546,820

Source: Financial reports 2004/5 of the four Universities. 1US $ =1800.

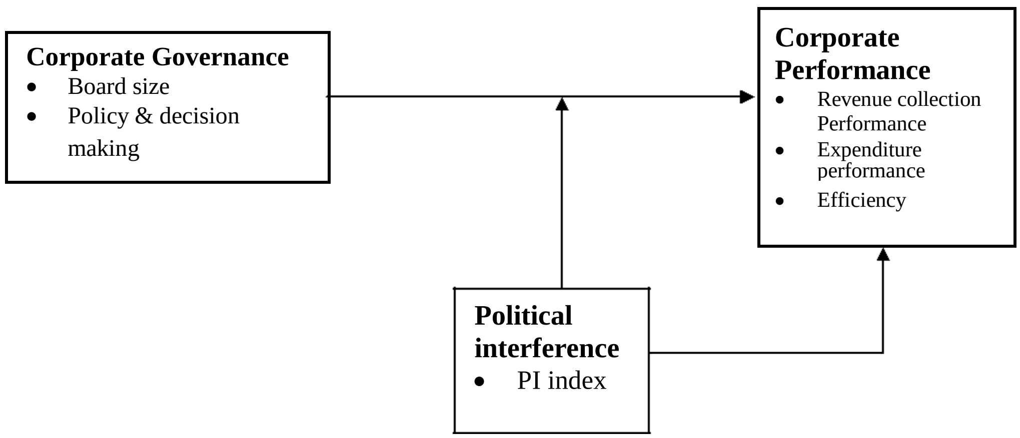

Figure 1. Conceptual framework**.** Source: A modification of the model by Chang and Wong (2002), Gavin and Geoffrey (2004).

designs. These research designs were used to collect a snap shot of data and analysis of the relationships between study variables.

Conceptual framework

Political interference moderates the link between corporate governance and financial performance and also affects corporate performance (Chang and Wong, 2002) Figure 1. Corporate governance enhances corporate performance (Gavin and Geoffrey, 2004).

Study population

The study population size of 221 constituted 91 council and 130 senate members of 4 public universities namely; Makerere University, Mbarara University of Science and Technology, Kyambogo University and Gulu University. The unit of analysis was Universities. A sample size of 142 council members and senate members was used as determined by Krejcie and Morgan's (1970) table 2. Proportionately stratified and simple random sampling designs were used to select the sample of 142 members. Primary data was obtained from primary source on corporate governance and political interference using semi structured questionnaires.

Secondary source provided secondary data on financial reports and number of council and senate members through abstraction method. Content validity index (CVI) was used to measure the relevancy of the questions used to measure the study variables of corporate governance and political interference. A four point scale of relevance, quite relevant, somewhat relevant and not relevant was used to collect the responses from two experts in the area of study. A proportion of relevant and quite relevant was computed to get the CVI's of the two experts. The CVI's were 0.6974 and 0.5789. Since the questions were relevant to the study variables. The reliability tests performed using cronbach alpha coefficient to determine the internal consistency of the Likert scales used to measure the study variables. Normality tests, P-P, Q-Q, Histogram, stem leaf plots, skewness and kurtosis, Shapiro test sig>0.05 exhibited normal distribution. Linearity test, there were sig. correlations between study variables and also sig F<0.01. Multicollinearity test, VIF< 1.8, CI< 9. Homogeneity test, Leven test sig>0.05. Autocorrelation, Durbin Watson test = 1.0439> Adj R-Square=0.374 for the model.

RESULTS

Primary and secondary data was coded, edited and analyzed using the Statistical Package for Social Sciences (SPSS) version 17. Multiple regressions were used to predict corporate performance of public universities in Uganda. Results indicated that the highest proportion of respondents were from Makerere University (33%), Mbarara University of Science and Technology (24%), Kyambogo University (22%) and Gulu University with (21%).

Regression model for political interference and corporate performance

There was a linear relationship between, political

Table 2. Regression model.

Model	Unstandardized coefficients		Standardized coefficients		
	B	Std. Error	Beta	t	Sig
Constant	0.492	0.193		1.324	0.000
Board Size (BS)	-0.356	0.165	-0.398	-3.054	0.000
Policy and Decision Making (PM)	0.298	0.431	0.343	2.267	0.000
Political Interference (PI)	-0.245	0.267	-0.298	-2.030	0.000

R- Square =0.390, Adjusted R- square = 0.374, F= 3.640, Sig = 0.000 Durbin Watson test = 1.0439 Model, CP=0.492-0.356BS+0.298PM-0.245PI.

interference, corporate governance with corporate performance (F = 3.640, Sig = 0.000). Board size, policy and decision explained 37.4% of corporate performance of public Universities. Policy and decision making (Beta = 0.343), this implied that proper management of policies and decisions led to increase in corporate performance.

Board size and political interference however, negatively impacted on the corporate performance (Beta = -0.398) and (Beta = -0.298) respectively. This implied that increase in the size of Council and Senate led to the reduction of in corporate performance of public Universities.

DISCUSSION OF FINDINGS

The discussion of the findings is provided in line with the study objectives as follows:

Corporate performance was significantly explained by corporate governance and political interference. The multiple regression model indicated that 37.4% of the corporate performance of public universities was contributed by corporate governance in terms of policy and decision making and board size followed by political interference. However, board size had a negative effect on the corporate performance of public universities. Results are also consistent with Bonn et al. (2004) whose findings showed a negative relationship between board size and performance of Japanese firms.

Furthermore, the results are in line with Gavin and Geoffrey (2004) who established that corporate governance led to improved firm performance. Panasian et al. (2003); Zahra and Pearce (1989); and Zahra et al. (2004).

Most of the existing evidence of how political interference affects corporate performance, which comes from studies that document the poor performance of state-owned enterprises compared with the performance of non-stateowned enterprises. The logic here is that the corporate governance structure of state-owned enterprises is associated with a higher degree of political interference and that their poor performance thus supports the idea that political interference damages corporate performance (Shleifer and Vishny, 1994).

Conclusions

Political interference is detrimental to corporate performance of public universities. Findings on the relationship between corporate governance and corporate performance indicate that, policy and decision making as aspects of corporate governance had a positive effect on corporate performance while board size had an inverse relationship. The public universities had no optimal number of members on senate and council. Policy and decision making in public Universities is important in contributing to corporate performance. Lastly, corporate governance positively contributes to corporate performance of public universities.

POLICY RECOMMENDATIONS

To minimize political interference, government should allow and respect institutions independency to foster harmony and growth. There is need to review the membership of council and senate to avoid having large boards for improved cohesiveness and corporate performance, due to the fact that board size was inversely related to corporate performance. Council and senate should avoid rubberstamping of top management's recommendations on policy issues. Instead, thorough discussion on the recommendations through committees of council should be made to arrive at acceptable and conclusive policies. Allow them access to online and physical library resources within the university in order to appreciate a wide range of activities that take place at the university. This enables them to articulate policy issues from an informed point of view.

Council and senate must ensure that the universities meet their legal obligations like up to date remittance of staff benefits to National Social Security Fund and National Insurance Corporation, as a requirement towards the welfare of staff to minimize institutional turbulences that may result from non remittances.

Appointment of employees at top management level who possess vast management experience that will bring initiative, innovativeness, and creativity and add value to the institution. Council should have in place risk management procedures that encompass financial, operational and environmental risk in order to identify, assess and put the right management mechanism/ responses in place for improved corporate performance.

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