

Full Length Research Paper

Problems in investigating how corporate governance affect the effective performance of contributory pension schemes in Nigeria

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This work examined the effect of corporate governance practices on the performance of pension scheme in Nigeria. The objective of this study is to determine the effect of corporate governance practices on the performance of pension scheme in Nigeria. Theoretical and empirical studies of this work relied on the relationship between corporate governance practices and performance of pension scheme in Nigeria. It is also important to note that the new pension reforms and policy thrusts could have impacted more positively on the system if the issue of systemic crisis had reduced considerably. It was concluded in this study that there is significant positive effect of corporate governance best practices on the performance of pension scheme in Nigeria. As such, it was recommended that all stakeholders and employees should be actively involved in the conduct of good corporate governance practices as this is the only way successes could be achieved in its effect on the performance of pension scheme in Nigeria.

Key words: Pension scheme, corporate governance, Pencom, PFA, RSA, PAYG.

INTRODUCTION

Corporate governance is the administrative arrangement whereby a nation or organization is segmented or broken into administrative units with well-defined roles stated in the constitution as the laws of the country or statute of the organization. The Nigeria nation started as a unit through the emergence of the missionaries and the British traders and its corporate arrangement started with the creation of southern protectorate which metamorphosed into a nation with the amalgamation of the two protectorates in 1914 by Lord Lugard was the governor general appointed by Britain (Esther, 2009).

The corporate arrangement led to the introduction of Regional Government whereby Nigeria was divided into three regions namely: the west with headquarters at Ibadan, the East with headquarters at Enugu, and the North with headquarters at Kaduna. The regions increased to four with the creation of Midwest region in 1963 with the headquarters at Benin (Federal Republic of Nigeria constitution of 1990).

The federated unit of Nigeria was changed from „region“

to state in 1967 when Gowon Administration divided Nigeria into 12 administrative units called States. It then grew to 19 state structure and finally 36 states, and the Federal Capital Territory Abuja at present. Corporate governance also refers to issues such as transparency, resolution of conflicts and the overall way in which the business in question is run. Governance also includes accountability and anti-corruption measures put in place by various operators or components (Musalem and Palacios, 2004). There cannot be governance in pension fund administration when pension contributors' funds are used to meet objectives other than retirement income objective. Corporate governance would be absent if workers' pension contributions are used as captive source of finance or lost due to corruption and mismanagement.

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Many pension schemes had existed before the Pension Reform Act of 2004 in Nigeria. Ahmad (2006) opines that the first public sector scheme was the Pension Ordinance of 1951 with retroactive effect from January 1, 1946. This law provided public servants with both pension and gratuity. In 1961, the Nigeria Provident Fund was established by the Nigeria Provident Fund Act of the same year. This was replaced by the Nigeria Social Insurance Trust Fund (NSITF) that was created by the NSITF Act, 1993 (Akeni, 2006).

The new pension scheme is a contributory scheme, publicly and privately managed. The public aspect is managed by National Pension Commission (Pencom), while the private aspect is managed by Pension Fund Custodians. Every eligible „employee“ maintains a Retirement Savings Account in his name with the Pension Fund Administrator (PFA) of his choice. The employees always notify their employers of the PFA chosen and the identity of the Retirement Savings Account (RSA) opened. The employees and employers contribute a minimum statutory percentage of the employees“ monthly emoluments (comprising basic salary, housing allowance and transport allowance) into the Retirement Savings Account of the employees. The contributions would be managed and administered by Professional Fund Administrators and held in custody by licensed Pension Fund Custodians. At retirement, the amount in the employees“ Retirement Savings Account would be the total contributions plus income and capital gain earned on the contributions made (Pension Act 2004). However, the public sector pensions were the defined benefit or a Pay As You Go (PAYG) system. They depended fully on government budgetary provisions for funding (Tuner, 2006). But these previous schemes did not provide the needed succour for our retirees. This was buttressed by Young (2007), when he stated that the previous schemes were characterised by fraudulent diversion of retirement pensions and outright non-payment.

The problem that led old pension scheme to failure which was associated with the public pensions schemes include identification of pensioners, determination of amount of entitlements, reconciliation of government overall pension liability for budgetary and planning purpose. While commenting on the public pension debt burden, Balogun (2006) stated that the public pension could not be sustained as outstanding pension deficits amounted to over 2 trillion naira before 2004.

Since the introduction of pension schemes in Nigeria, the old pension schemes was characterized by non-payment of pensioners, embezzlement of the fund by pension officers and the huge amount of pension to be paid which constitute burden on government yearly budget, which then result to the failure of old pension schemes.

Sequel to the failure of old pension schemes, a new contributory pension scheme was introduced by the

Pension Reform Act (PRA), 2004. It is aimed at developing a system that is sustainable and had the capacity to achieve the ultimate goals of providing a stable, predictable and adequate source of retirement income for each worker in the country. It is designed to be fully funded (by both the employee and employer), publicly and privately managed and based on individual accounts (Akeni, 2008). A fully funded pension fund is the one that has sufficient funds available to meet all future payment obligations (Cornetts, 2009).

This study is therefore faced with the problem of investigating how the best practices in corporate governance affect the effective performance of contributory pension schemes in Nigeria so that it cannot fall like old pension schemes. Against this backdrop, this study examines the effect of corporate governance practice on the performance of pension schemes in Nigeria. Subsequently, the review of relevant literatures is presented, after which the conceptual framework is given. This is lastly followed by the study“s conclusion and recommendations.

REVIEW OF RELATED LITERATURE

Empirical review

Some empirical literature shows that a lot of studies try to measure the relationship between corporate governance and performance of firms in Nigeria. The first researches (Heracleous, 2001; Yermack, 1996; Claessens, 2001; Klapper and Love, 2002; Gomper, 2003; Black, 2003) in this area reported inconclusive result as their findings are inconsistency. While the second group of researches (Bebchuk and Cohen, 2004; Bebchuk et al., 2004; Eruteya et al., 2008; Ovbiagele and Ekwu, 2010) in this area has shown that well governed firms have higher firm performance in any country. Akeni (2008), in a study of corporate governance and new pension scheme using qualitative data, finds that the level of compliance is very low; and employers make deductions from their employees“ salaries and do not remit it to the Pension Fund Custodians (PFCs). Heracleous (2001) in his study concludes that studies have failed to find any convincing connection between the “best practices“ in corporate governance and organisational performance.

Esther (2009) used descriptive survey to investigate the relationship between corporate governance and secretarial administration as it affects the growth and development in Nigeria. The study found that the relevance of the secretary in a corporate governance and government attitude towards the development of secretarial profession is a great concern. Furthermore, Barkema and Gomez-Mejia (2008) argue that firms governance structure play no significant role in the study of corporate governance and performance of any firm.

Robert (2010) used 50 questionnaires to assess the level of compliance of corporate governance by

corporations towards achieving organisational goals in Nigeria. The study found among others that the principles of collectivity were not in practices; that management team and employees are not involved in decision making; and that principal officers and employees are not allowed to initiate programmes, projects and policies for the corporation. Coles (2011) argue that firms have the ability to choose among different corporate governance mechanisms that result to the optional performance of the firm.

Akhalumeh et al. (2010) in a study of corporate governance practices in the post-consolidation banking sector in Nigeria using quantitative research survey found that there is partial adoption of the principles of good governance practices in Nigeria. In exposition, Ojuye (2011) uses descriptive survey to investigate the practice in corporate governance and entrepreneurship development focusing on government policies. The study observed that government policies formulated towards encouraging the development of entrepreneurs over the years are positively adequate and that the structural organisation, deficiency of SMEs tends to promote ineffective corporate governance in Nigeria.

Mariassurita and Luc (2007) in a study of pension reform, ownership structure and corporate governance in Sweden, found out that firm performance improves if large independent private pension funds and public pension funds increase their equity stakes in the firm, but not if smaller pension funds and pension funds related to financial institutions and industrial groups increase their shareholdings. Augusto (2009) studied pension reform and corporate governance in Chile, and found that companies where pension funds have been invested are under close public scrutiny because of corporate governance and that capital market growth has also had positive consequence on corporate governance. Also, Pablo et al. (2011) used ordinary least square method to determine corporate governance, stock market and economic growth in Brazil. By the methodology adopted, there are evidences that companies who adopt better practices of corporate governance have better performances (collect more benefits) in the economic growth cycle than those companies that do not adopt them.

In a study by Erureya et al. (2008), they surveyed the corporate governance in Nigeria looking at the issues affecting stockholders and managers towards achieving growth and development. The study reveals that corporate governance is good in reforming the board governing the corporation and stockholders are legal owners of a corporation. Ozigbo and Eloho (2009) in a study of assessing the relationship between banking lending and corporate governance in Nigeria found that cases of bad debt is still present in Nigerian banking industry.

In a recent study by Ovbiagele and Ekwu (2010), they used qualitative survey to investigate corporate

governance practices for national development focusing on the challenges for management education in Nigeria. It was discovered that the ideal corporation governors require managerial skills for conceptualization of ideas and technical skills for their efficient operations.

Furthermore, Ofishe and Mukoro (2011), in a study of good corporate governance as a tool for effective business management in Nigeria using chi-square equation, reveal that there is a significant contribution of corporate governance in Nigeria.

Discussion of reviewed literature

Corporate governance practices in this case involve all activities engaged to increase, improve or maintain the performance of pension scheme in Nigeria. The issue of pension scheme performance has received much attention in many countries since the establishment of corporate governance. In fact, in recent times, pension scheme has increasingly attracted the attention of policy makers in many countries as a means of facilitating privately funded retirement income savings by an ageing workforce (World Bank, 2009). This means that corporate governance has helped the performance of pension scheme when pension contributors' funds are used to meet objectives of retirement income objective. Akhalumeh et al. (2010) opine that corporate governance means the structure of relationships for decision making and action within a corporate entity. Audu (2007) defines corporate governance as: "the relationship between the stakeholders and management of an organisation as defined by the corporate character, bye laws, formal policies and rule of laws. Akeni (2008) defined pension scheme as a retirement benefit or Pay As You Go (PAYG) system.

The gap in the literature

The extent to which corporate governance practices affect performance of pension scheme has been widely studied. A good percentage of researchers revealed that corporate governance best practices have the capacity of enhancing the performance of firms including Nigerian pension scheme. While a little percentage of them have nothing to say in respect of the effect of corporate governance best practices on the performance of pension scheme, this means that corporate governance has significant effect on the performance of pension scheme in Nigeria.

Theoretical framework

Theories are sets of concepts and generalizations arranged to explain and predict possible and probable relationships among phenomena. They are also formulations and principles of behaviour through which knowledge about human interactions can be increased.

They are found on observation and analysis. Theories, as forms of explanation increases knowledge about what are happening in and around the corporate organisation and its governance.

Many theories have been developed in relation to pension reform across the globe. In this study, we made use of three of them (utility and preference theory, life cycle theory, and productivity theory of pension) that are practically relevant to investigate the effect of corporate governance practices on the performance of pension scheme in Nigeria. Each of them is briefly explained subsequently. This is because of the attaching benefits. The benefits include reduction in income tax of the employee and the retirement benefits such as: social security from the employer's contributions, interest earnings and dividend earnings on pension fund investment or assets that are not taxed. Others include the prospect of future enhanced and acceptable pension benefits, from awards or increases that may be offered by the government from time to time. Yet another benefit is an insurance cover of sorts against risks that pension provides.

The supply side of this theory posits that employees' gain from pension tends to raise the level of workforce productivity and reduce labour costs. This is because the employers' investment in the training of the workforce, improved conditions of service, provision of adequate resources, etc., are greatly off-set by the workforce's improved output or productivity. There is also the perspective that the supply side to the theory serves as an incentive for personnel to remain in the organization for a long time.

Discussion of the theoretical framework

Utility and preference theory is rather weak or strong as a subjective decision choice since it may be rightly argued that one of the merits of the Utility and Preference theory is the fact of the admission of qualitative rather than heavily quantitative content. It is also easily appreciable, interpretable, and understandable by administrators.

Theory of „life cycle“ believed that sustainable corporate governance practices on the performance of pension scheme can grow huge financial resources for further investment earnings which can cause significant redistribution of income, leading to increased wealth to pension participants.

In the productivity theory of pension, it argues that the organization tends to gain because large workforces enhance high productivity and attachment to the organisation.

Theory implication

Establishment of corporate governance best practices in Nigeria is expected to enhance the performance of pension scheme in Nigeria. This is because the theory

has implication on the power of huge income creation and redistribution to participants or contributors, which leads to increased wealth. Hence, the performance of pension scheme through the use of corporate governance best practices has the power to change or affect the life cycle of the pensioner. However, the reliability of the Pension Fund Administration, the regulatory bodies and security agents must make use of corporate governance best practices and as well to ensure that pension scheme play its role effectively.

CONCEPTUAL FRAMEWORK

Conceptual review

The word “corporate” denotes sharing by a group of people who are role players in an organisation. Governance, on the other hand, involves the governed and the governor. Using this explanation as raw materials for the development of this paper, the term corporate governance, according to Aseni (2001) describes corporate governance as a manner with which organisations, institutions or communities are managed and the nature of accountability resources managers are expected to render to owners. Ayadi (2006) also describes corporate governance as the holistic system of organisation, management and control by which companies, institutions and government, businesses are directed in the drive towards the achievement of their set goals. Remarkably, corporate governance concerns the exercise of power in corporate entities.

The Pension Reform Act, 2004 established the National Pension Commission (PenCom) which is the regulatory authority for pension matters in the country. PenCom licenses Pension Fund Administrators (PFAs) and Pension Fund Custodians (PFCs). Employees choose their own Pension Fund Administrators and open Retirement Savings Accounts (RSAs) with them. The PFAs issue the employee with a Personal Identity Number (PIN). The employee sends his PIN number to his employer's payroll department for deduction to be made from his monthly salary. The employer adds his own contribution to that of the employee and remits it not later than seven days after salaries payment to the PFC has been appointed by PFA. A good corporate governance practice helps the Pension Fund Custodians to keep the funds while Pension Fund Administrators credit the employee's Retirement Savings Account.

Reasons for creation of Corporate Governance in Nigeria

- To stem the cry of marginalization by various tribes.
- To bring the government closer to the people.
- To enhance speedy development of all sections in the country, especially after the civil war.
- To enhance the growth of the country in the area of

industrialization, commerce, education, infrastructural development, employment, and general economic growth.

- To enhance peaceful co-existence among various tribes and guarantee the interest of minority group in the federation. Corporate governance enhances interdependence among the components units for the purpose of development. However, it should be noted that even till date, the agitation for creation of more corporate units of administration in Nigeria is still unabated.

CONCLUSION AND RECOMMENDATIONS

It can be said that corporate governance best practices have the potentials of contributing to the performance of pension scheme in Nigeria. The previous schemes did not provide the needed succour. The new pension scheme can be seen as the panacea for the various problems created by the previous scheme. But the problem that workers are facing now is lack of commitment by the employers.

Since good corporate governance is expected to contribute positively to the performance of pension scheme, it is therefore concluded that the National Pension Commission (PenCom), Pension Workers Unions and the non-governmental organisations (NGOs) should put every effort to ensure that there are good corporate governance practices in the implementation of the Pension Scheme Act so that it can contribute meaningfully to the growth of Nigerian economy. It is also concluded that there is significant effect of corporate governance best practices on the performance of pension scheme in Nigeria.

Based on the nature of this work, the following recommendations were proffered:

1. All stakeholders and employees should be actively involved in the conduct of good corporate governance practices as this is the only way successes could be achieved in its effect on the performance of pension scheme in Nigeria.
2. The pension scheme should adopt minimum standards in disclosing corporate governance practices. Such disclosures will provide other stakeholders transparent pictures of the level of corporate governance practices in the new pension scheme.
3. Pensioners should be encouraged through the use of good corporate governance best practices by paying them their pension fund after retirement.
4. Corporate governance practitioners should adhere and comply with the requirement of pension scheme to ensure that they meet the objectives of the pensioners.

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