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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.

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

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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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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