

# Corruption and Economic Transformation in Nigeria.

## An Agency Theoretic Perspective

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**Abstract** *The Nigerian nation is no stranger to economic reforms. Yet, in spite of more than half a century of reforms, the debilitating effects of an economy in distress are still very much with us. The manufacturing sector that is supposed to be the engine room of the nation's economy has been characterized by low capacity utilization and declining contribution to national output. The resultant effect of all these is poor standard of living and ravaging poverty. Adopting the "Principal – Agent Model" as a theoretical basis, the paper argued that due to the privileged position of the agents (elected public officials) to public resources and information, they tend to abuse these privileges by acting contrary to the interest of their principal (the electorates). The paper therefore among others recommends that the principals should be more alive to their responsibility by seeking for information and regular monitoring of the activities of the agents in order to ensure Public Sector Accountability.*

**Key words** Corruption, economic transformation, accountability, principal, agent

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### 1. Introduction

The entity now referred to as Nigeria is an amalgam of various ethnic nationalities and communities which had mutually accepted to be one, or has been forced into a unity by their Colonial Overlord – the British. It was in 1914 when what stood as the Southern and Northern protectorates of Nigeria were amalgamated into one united country by the British representatives in Nigeria – Sir Frederic Lugard.

Once united into one, the Country has made tangible effort and has taken giant step in growth and development. Nigeria has grown more than ten times its total population in 1914 and has developed quite appreciably in all ramifications. At the time of her political independence, on 1<sup>st</sup> October 1960, Nigerian excelled in production of agricultural produce such as groundnut, palm oil, cocoa, cotton, beans, timber and hides and skins (Adeyemi, 2012).

Then during the oil boom period of the seventies Nigeria made headlines with her oil wealth, as a country richly endowed with oil and natural gas resources capable of financing a number of important projects to meet basic consumption and development needs (Salisu, 2000). With per capital income of around \$1,100 during the late 1970's Nigeria was regarded as the fastest growing country in Sub-Sahara Africa (Saliu Ibid). However, Nigeria's economic performance between 1980 and 2000 was decidedly unimpressive. It was estimated that Nigeria received over \$228 billion from oil exports between 1981 and 1999 (Udeh, 2000), and Yet the numbers of Nigerians living in abject poverty – subsisting on less than \$1 a day more than doubled between 1970 and 2000, and the proportion of the population living in poverty rose from 36 percent to 70 percent over the same period (Iyoha and Oligbi, 2013). At official exchange rates, Nigeria's per capital income of \$260 in 2000 was precisely one – third of its level in 1980 (World Bank 2005).

During this period the industrial sector continued to shrink. The manufacturing sub-sector was the worst hit. By 2010, the share of manufacturing GDP had fallen to 2.9 percent from a high of 10 percent in 1983. The poor performance of the industrial sector during the past 3 decades has been attributed in large

part to deficiency of infrastructure especially transportation and power. But above all, it has been a result of lack of good strategy of industrialization.

Obadan and Edo (2004) noted that manufacturing sub-sector has been characterized by low capacity utilization, low and declining contribution to national output, declining and negative real growth rate, dominance of light consumer goods manufacturing, low value – added to production due to high import dependence for inputs, prevalence of unviable state – owned enterprises, accumulation of large inventories of unsold finished products goods and dominances of sub- standard goods that cannot compete internationally (Iyoha and Oligbi op cit).

In order to reverse these ugly trends, various economic reforms programmes were packaged by various regimes in Nigeria. For instance, in 1986, the Structural Adjustment Programme (SAP) was introduced by the Babangida administration to address the fundamental and structure in balances in the economy, strengthen the currency and build a viable, sustainable industrial infrastructure upon which real economic growth and development can be founded.

In 1998, the vision 2010 reform package was introduced by Abacha Administration. The aim was to “develop a blue print that will transform the country and place it firmly on the route to becoming a developed nation by year 2010 “(vision 2010 Report 1998). Again in 2004, the Obasanjo Administration came up with NEEDS reform package. The programme NEEDS – National Empowerment and Development Strategy – rested on four key strategies (NEEDS, 2004):

- Reforming Government and Institutions
- Growing private sector;
- Implementing a social charter;
- Value Re-orientation

In 2007, the Yar’ Adua administration came up with 7-point Agenda for national development. In 2011, the Goodluck administration came up with a Transformation Agenda. Again in 2015, the Buhari-Led administration came into power with the change agenda, with policy thrust of curbing Public sector corruption as a panacea for better economic transformation.

The policy thrust of all these reforms is that Nigeria would be ranked one of the 20 most developed countries of the world by the year 2020.

In spite of all these reforms and transformation, Nigeria still remain predominantly under-developed due the scourge of economic and financial buccaneering and lack of political commitment on the part of leadership to fight corruption (Adenuga 2001; Sorunke 2013a).

## **2. Literature review**

### **2.1. The concept of corruption**

Corruption is a complex and multifaceted phenomenon with multiple causes and effects, as it takes on various forms and functions in different contexts. The phenomenon of corruption ranges from the single act of payment contradicted by law to an endemic malfunction of political and economic system. The problem of corruption has been seen either as a structural problem of politics or economics, or as a cultural and individual moral problem. The definition of corruption consequently ranges from the broad terms of “misuse of public power” and “moral decay” to strict legal definitions of corruption as an act of bribery involving a public servant and a transfer of tangible resources.

The encyclopedic and working definition used by World Bank, Transparency International and others is that corruption is the abuse of public power for private benefit (or profit). Gould and Kolb (1983) defined corruption as the use of power for profit, preferment, prestige or for the benefit of a group or a class, in a way that constitute a breach of law or of standards of high moral conduct. According to the definition, corruption implies a person who has power to engage in corrupt practices for achieving not only profit but also prestige or ambition which are attached to his/moral conduct. In Colin Nye’s classical definition, corruption is “behaviour that deviates from the formal duties of a public role (elective or appropriate) because of private-regarding (personal, close family, private clique) wealth or status gains (Nye, 1967).

This definition highlights the moral conduct of a person who engaged in corruption and distinguishes between the public and private spheres of life. This point is also emphasized by Rose-Akerman, who says corruption exist at the interface of the public and private sectors (Rose-Ackerman, 1978).

## **2.2. Economic transformation**

Transformation is a fundamental shift in the deep orientation of a person, an organization, or a society such that the world is seen in new ways and new actions and results become possible that were impossible prior to the transformation (UNDP-LDP, cited by Asobie, 2012). It is a mandate for a radical, structural and fundamental re-arrangement and re-ordering of the building blocks of the nation (Osisioma, 2013). Reform is not synonymous with transformation. While reform consists of changes and improvements to a system or institution, transformation relates to a fundamental re-ordering, a complete change or total overhaul. While reform is likened to a physical reaction, transformation is more aptly regarded as a chemical reaction. While the former can be likened to an arithmetical progression, the later is more in the league of geometric progression (Osisioma Ibid).

Economic transformation involves the restructuring of an economy from subsistence to an industrial economy with vision of improving the welfare of the citizenry, stimulating competition and providing greater choices while enhancing the economic capacity of the people (Lemo 2013). Various studies have underscored industrial development and economic transformation as an evolution of new endowments either through development of human capital and/or deliberate infrastructural increment which spurs productivity (Hosono, 2013). According to Cimoli *et al.* (2009) and Greensward and Stightz (2012) learning and accumulation of knowledge are critical to transformation. Lemo (2013) emphasized that harnessing and/or changing endowments and determining comparative advantage is also important in restructuring the economy for transformation.

## **2.3. Theoretical framework**

The adoption of theoretical framework in the management and Social Sciences greatly helps in the analysis and even understanding of concepts from some theoretical framework point of view and/or orientation (Kayode *et al.*, 2013).

For the purpose of this paper, the Principal-Agent theory otherwise known as agency theory is adopted for the theoretical framework of analysis. Agency theory has been used by scholars in Accounting (e.g. Demski and Fetthan, 1978), Economics (e.g. Spence and Zeckhauses, 1971), Finance (e.g. Fama, 1980), Marketing (e.g. Basu *et al.*, 1985), Political Science (e.g. Mitnick, 1986), Organizational behaviour (e.g. Eisenhardt, 1985, 1988; Kosnik, 1987) and Sociology (e.g. Eccles, 1985; White 1985).

The Principal-Agent theory adopted from Batley (2004) examines organizational relationship as a tension between the “Principal” who demands a service and the “Agent” who provides it. The model assumes that actors are motivated by rational self interest. The issue in the context of this paper is how the principal (in this case, the Nigerian citizens) can manage the self interest of those empowered to act on their behalf (i.e. the agents: government officials, politicians, legislators, bureaucrats etc.) so that it is aligned with the purposes that they (the principal) wish to achieve.

The problem arises not just from conflict of interest but also from the privileged access of the agents to information - the problem of asymmetric information. The agents who have been employed to provide a service will tend to use their superior knowledge to divert benefits in their own direction.

In a democratic polity, the ultimate principals are the citizens who are the consumers of specific services provided by the government. In the principal-Agent theory, the electorates are principal in the sense that politicians as agents seek their mandate from and act as the representative of the public.

The likelihood of the principal effectively controlling the agent depends on how much information the principal has about the performance of the agent, and how far the principal can structure the relationship so as to control the agent or give incentives so as to make the agents’ interest correspond to the principals (Kayode *et al.* 2013, *op. cit.*). The agency literature described the conflict of interest problems as one that arises when cooperating parties have different goals. Specifically, agency theory is directed at the ubiquitous agency in which one party (the principal/electorate) delegates work to another (the agent/elected public officials), who perform that work. Agency theory attempts to describe this relationship using the metaphor of a contract (Jensen and Meckling, 1976).

Agency theory is concerned with resolving two problems that can occur in agency relationship. The first in the agency problem that arises when (a) the desires or goals of the principal and agent conflicts and (b) it is difficult or expensive for the principal to verify what the agent is actually doing (Eisenhardt, 1988).

### **3. Methodology of research**

This paper relies wholly on secondary data collected from official documents of the federal government, journals, magazines and newspapers and reports and other publications of local and international non-governmental agencies: the content analysis method was adopted in analyzing the issue.

### **4. Discussions**

From the findings of this paper, it was obvious that the present crops of leadership in Nigeria are yet to see themselves as agent of the electorate that elect them to the office on trust. Hence, they act only to achieve their own selfish goals at the detriment of the principal.

In Nigeria today, elected officials abuse public power for private benefit (or profit). Studies have shown that no nation can develop where public offices are used for private enrichment. The problem is not so much with the fact that there is endemic corruption in public institutions in Nigeria, but with extent to which public treasury is daily being looted with the rapacity of a glutton by corrupt public officials (agent of the electorates); most especially through contract inflation and payment for non-existing supplier or contractors (Sorunke, 2013b).

One of the fundamental problems of contemporary Nigeria is corruption (Adeyemi, 2012). It has thrived, progressed and flourished unabated. Corruption has been institutionalized to the point of accepting it as part of our system (Adeyemi Ibid). Albeit corruption is ubiquitous, it is found all over the world, but the degree of its manifestation varies from system to system (Lawal and Oladunjoye, 2010).

Globally, corruption has been identified as one of the major problems that have negative consequences on the socio-political and economic development of many nations. It has undermined Nigeria's economic growth and development potentials, with a per capital income of \$340, Nigeria now ranks amongst the least developed countries in the World Bank league table (Salisu, op cit).

Another critical issue to Nigeria economic transformation and development is the way the agent (elected leaders) handle information about governance. It is a well established fact that information about government activities are shielded in secret by the agent away from the principal (the electorate) thereby making public accountability practically impossible.

The word accountability simply means the obligation to answer for a responsibility that has been conferred. It presumes the existence of at least two parties, one who allocate responsibility (the electorate) and one who accept it (the elected public officials) with the understanding to report upon the manner in which responsibility entrusted has been discharged. As succinctly put by Laximikanth (2002). "The concept of accountability connotes the obligation of the administrators to give a satisfactory account of their performance and the manners in which they excised power conferred on them. Its main aim is to check wrong and increase efficiency and effectiveness of administrative process".

Within the frame work of accountability, responsibility accounting is very relevant. Responsibility accounting identify the various decision centres within an organization and trace cost to the individual managers who are primarily responsible for making decision about the cost in question. The essence of responsibility accounting is to ensure that managers or public officials take decision or incurred cost on behalf of the public, and that the decision to incurs these cost are taken in accordance with existing laws, rules, regulation, established procedure and conventions. Anything short of this lacks accountability.

For any society to experience meaningful development, probity and accountability of leaders is non-negotiable. Accountability requires leaders and public officials (agents) to be morally and financially accountable to the tax payer (principal).

### **5. Conclusions and recommendations**

There is no doubt that the elected public official (agents) has betrayed the electorate (their principal) in the conduct of their duty by imposing their self-interest on public interest.

It must be admitted that for any country to achieve meaningful economic growth and development, total poverty eradication, gainful employment, industrialization, full capacity utilization, improved standard of living, favorable balance of payment and socio political stability, the agent (the elected public officials) must live above board by acting in line with the principal interest (the electorate).

Principal-Agent relationships which are supposed to bring improvement in the well being of the citizens have rather brought about degeneration in the quality of life of the citizen (Kayode *et al.* 2013, *Ibid*).

The paper therefore recommends the following:

- (1) Elected political leaders must henceforth see themselves as agent of the electorates.
- (2) As an agent of the electorate they must be fully accountable to their principal (the electorate) at all time.
- (3) Where their personal interest conflict with that of their principal (the electorate) that of the principal supersede.
- (4) Where the agent (elected political leaders) breach the trust reposed in them by the principal, they should be sanctioned accordingly.
- (5) The Principal should be more alive to their responsibility/powers by seeking for information and monitoring the activities of their agent (political leaders) on regular basis.
- (6) Where the Principal discovered that the agent is not representing his interest well, the principal should be bold enough to replace such agent without fear or favour.

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