Corporate Governance Practices in Namibian Local Authorities

Ruusa Nambata Matheus, Gibbet Murambiwa Magaisa, Michael Moyo

University of Namibia

DOI: https://dx.doi.org/10.47772/IJRISS.2025.90300296

Received: 06 March 2025; Accepted: 17 March 2025; Published: 15 April 2025

ABSTRACT

This study investigated the implementation of corporate governance practices in Namibian local authorities. An exploratory design was adopted through qualitative methods. The population of the study was ten and it was made up of the seven council members and three executives, purposefully selected from five local authorities in Namibia. Data collected through face-to-face interviews was analysed through content analysis. The study found that the Namibian local authorities have the responsibility to achieve institutional effectiveness through good corporate governance and should understand their role in governance. It was also discovered that there is a lack of commitment from the councillors towards the fulfilment of their roles. The findings also revealed the lack of internal control, which leads to failure to observe and address deviations in the implementation of good corporate governance. This study recommends training of councillors through focused induction programs, implementing internal control systems to monitor risks and non-compliance, and using robust legislation to protect the council and its members from all forms of victimisation.

Keywords: Corporate governance; Councillor; Local authorities; Service delivery; Transparency.

INTRODUCTION

Local governments worldwide are essential for economic development and the provision of public services, being the nearest governmental entity to the populace [1, 2]. They manage essential services such as water, sanitation, health, education, and land use planning. The performance of local governments has a direct impact on both public and private institutions and the well-being of citizens within their jurisdictions.

In recent years, the subject of accountability within government institutions, particularly local authorities, has drawn a lot of attention following scandals and corruption, hence the demand for improved governance [3, 4]. Consequently, most governments are emphasizing the development of corporate governance practices aimed at improving accountability, transparency, and efficient use of public funds [5]. Nevertheless, the application of the practices is still a challenge, especially in local authorities [6].

Effective corporate governance adoption is required by municipal government authorities to facilitate efficient delivery of services and obtain immaculate audit reports [5]. Governance frameworks are different and can disrupt organizational operations as well as economic stability [7]. Research indicates that prioritising corporate governance drastically improves effectiveness in the public as well as the private sector [8, 9].

Despite the recognised importance of corporate governance, municipal administrations often face challenges in its implementation, especially within the Namibian environment. This paper investigated corporate governance practices in Namibian local authorities, with reference to service delivery issues such as housing and sanitation. The objective of this research was to establish how governance practices enhanced the ability of Namibian local authorities to fulfill their mandate better and increase the effectiveness of service delivery.

LITERATURE REVIEW

Corporate governance is a framework for conflict-of-interest resolution between the management of an entity and its shareholders [10]. Theories attempt to control such conflicts and reduce stakeholder disputes. Corporate governance encompasses shareholder rights, board structure, and the role of the management. Governance was there even prior to the commencement of business, although the term was legally recognized in the 1960s [11].

The significance of corporate governance was first recognized officially in 1976, following a Securities and Exchange Commission (SEC) requirement that mandated corporations to form audit committees comprising of independent board members [10]. During the 1980s, heightened monitoring of boards of directors paved the way for the development of the Principles of Corporate Governance, which ultimately saw them being officially adopted in 1994, notwithstanding their initial resistance [10, 12].

Corporate governance became critical following the financial scandals linked to Enron and WorldCom in 2002 [13]. The collapses of these corporations brought attention to the need for sound governance frameworks. Since then, regulators have enhanced governance standards to strengthen corporate accountability and effectiveness. Corporate governance theories explain the relationship between the elements of governance and the organizational capital structure. Leading theories include agency theory, stakeholder theory, resource dependence theory, and stewardship theory.

Agency theory is foundational in corporate governance, emphasizing the contractual relationship between shareholders and management [12]. Managers, tasked with running the company, may prioritize personal gains over shareholders' interests, creating an agency dilemma. Adam Smith first examined the separation of ownership and control, noting that managers might not fully prioritize company welfare [6]. The agency looks at relationships as contracts between owners and managers. Agency issues can be divided into three types: (1) the Principal-Agent Problem, in which managers put their own profits ahead of shareholders' interests; (2) the Principal-Principal Problem, in which large shareholders take advantage of their influence over minority shareholders; and (3) the Principal-Creditor Problem, which occurs when financing choices cause shareholder-creditor disagreements [14]. The theory emphasizes the need to have independent directors, establish audit committees, and utilize performance-based compensation as mechanisms to align management's interests with shareholders' interests [15]. Ref [16] warn, however, that overemphasis on performance-based remuneration can undermine managerial accountability.

Stakeholder theory extends beyond agency theory to demand that all stakeholders be considered, and not just shareholders [17]. Ref [18] defined stakeholders as groups or bodies impacted by company actions. The definition has since evolved to encompass employees, suppliers, communities, and even competitors [6]. The stakeholder theory is still central to the contemporary governance debate, advocating corporate and inclusiveness obligations. While agency and stakeholder theories highlight internal and external dynamics, respectively, resource dependence theory points to the importance of accessing external resources as a driver of corporate success [18]. This theory posits that organisations must adapt their competencies in response to environmental changes, with directors serving a pivotal role in acquiring essential resources such as information, expertise, and financial support [19].

The board of directors connects an organisation to the outside world with the members contributing various resources like legal acumen, financial astuteness, and local influence [2]. Ref [11] further states that financial performance relies heavily on the board’s diversity because it guarantees access to vital networks and assists in making better decisions. Stewardship theory differs from agency theory in that it posits managers to be careful stewards of the interests of shareholders [20]. Instead of managerial opportunism, it argues that managers concentrate on corporate success, their interests being aligned with the shareholders [21]. Unlike agency theory, which relies on exogenous control mechanisms, stewardship theory promotes trust in managers as insider directors are believed to have more knowledge about the operations of the firm than outsiders.

It is argued that granting autonomy to managers enhances organizational performance because their success is directly linked with the maximization of shareholder value [17]. Each corporate governance theory has its own specific perspectives on the shareholder-management relationship. Agency theory focuses on conflict of interest, stakeholder theory focuses on inclusiveness, resource dependence theory concentrates on obtaining external resources, and stewardship theory focuses on managerial commitment and trust.

This research is based on stakeholder theory, which argues that local governments have to harmonize the interests of various stakeholders, such as the government, investors, communities, and regulatory agencies. The adoption of corporate governance practices by local governments enhances a fair distribution of gains among all the stakeholders involved. Good corporate governance supports an inclusive society by promoting inclusiveness, freedom, fairness, and cooperation in the governance process [2]. Good governance effectiveness is based on the capacity of government institutions to enforce social contracts, make information readily available, and enhance the public's involvement in the decision-making process [4]. Accountability, transparency, and adherence to the rule of law are key pillars that make for good governance and, by extension, national development and enhanced institutional performance [22, 23].

Corporate governance is key to consolidating the nexus of political and administrative leaders [24]. It is rooted in values of selflessness, objectivity, integrity, and leadership, as explained in the Cadbury Report [25, 26]. Compliance with these values promotes service delivery within local governments by guaranteeing efficiency, fairness, and participatory engagement of citizens [5]. The practice of governance reforms is, however, confronted by political resistance [24]. Transparency is a key corporate governance value that facilitates openness and accountability to the law [2]. Transparency permits the public to access information, reducing chances of abuse of authority and enhancing institutional trust [22]. Lack of transparency in local authorities has led to corruption, nepotism, and misuse of public money [28]. Public officials ought to provide reasons for their decisions and actions to sustain public trust.

Political-administrative disputes, weak accountability mechanisms, weak compliance with legal requirements, and weak communication policies are challenges to implementing corporate governance in local governments [28]. Poor financial management and a lack of training restrict the quality of governance [2]. Political interference undermines decision-making and governance integrity [14], while bureaucracy, corruption, and nepotism increase inefficiencies [5]. African countries have, since the 1990s, embarked on corporate governance reforms to enhance the efficiency of institutions and avoid corruption [15]. However, good governance practices remain difficult to entrench in most nations [29]. Institutional and leadership structures must be strengthened to promote adherence to governance [24, 29]. There is a need to deal with governance deficits to promote sustainable development and public trust in municipal governments.

RESEARCH METHODS

The philosophy adopted for this study was interpretivism and this was implemented through an inductive approach to reveal new insights on the implementation of corporate governance practices in the Namibian local authorities. An exploratory design was adopted through qualitative methods. The population of the study was ten and it was made up of the seven council members and three executives, purposefully selected from five local authorities in Namibia. Data collected through face-to-face interviews was analysed through content analysis.

DISCUSSION OF RESULTS

The research findings sustain that the Namibian local authorities would greatly benefit from corporate governance practices strict compliance. Effective governance assures effective institutions through facilitating the best resources allocation to priority areas, with the final input being towards business and operational success. Conversely, gaps in the application of governance principles lead to negative organizational performance. These findings align with existing literature, which reaffirms the significance of corporate governance as among the top drivers of institutional success [22, 23, 27]. Governance plays a crucial role in overseeing an organization's overall functions, keeping entities accountable, and fostering sustainable performance.

Yet another key finding calls for an understanding of the council's role in fulfilling the mandate of the local authority, particularly in the provision of effective service delivery. Findings show that the council as an institution and councillors individually lack a clear understanding of their roles in governance. As noted by ref [22], the members of a governing body should have complete understanding of their roles in order to make contributions towards an organization's administration and management. From the study, it was indicated that councillors had no complete awareness that their primary responsibility is oversight within the Namibian local authorities' governance. Although they enter the council as representatives of political parties and institutions, their primary responsibility should be to uphold the principles of good governance rather than political loyalty.

The study also indicates a general lack of commitment by councillors in fulfilling their responsibilities. Their involvement in key governance matters, such as upholding transparency, fairness, and accountability, appears to be low. Ref [23] note the need for compliance with principles of governance to achieve good governance success. As per the research, the resistance by the councillors in executing fully their monitoring roles relies largely on political interests due to the fact that the councillors tend to focus more on maintaining the party agendas compared to keeping common fairness during the conduct of governance processes. This has effects on the representation of the communities in the local government and disables the objective governance of the council.

Political interests appear to contaminate the enforcement of governance regulations within the Namibian local authorities, as councillors are focused on defending their political reputation within their respective political groups rather than ensuring reasonable and effective governance. Empirical evidence indicates that politically motivated environments have governance that is susceptible to outside interference, particularly where the authorities lack much support from the populace [14]. The research cautions against excessive interference by stakeholders in the operations of the local government because such interference leads to governance failures and ineffective service delivery. This perspective aligns with existing literature, which argues that while shareholders and stakeholders are invested in an organization, they do not have to interfere in board matters unless their rights are at stake in particular [27]. Any form of external interference like political or otherwise deteriorates the efficiency of the Namibian local authorities.

The study also identifies significant challenges in the use of internal controls, which are significant in identifying risks, compliance, and filling governance gaps. The absence of effective internal controls was the central governance challenge, resulting in being unable to detect and correct drifts from best corporate governance practice. Ref [11] points out that internal controls are a key component of corporate governance since they enable the early detection and rectification of governance failures. Despite the existence of governance guidelines such as the King Reports and the Nam Code, the research shows that these guidelines are not being actively cited in the council's decision-making processes, leading to governance inefficiencies.

The research findings have various important implications. In practice, they call for awareness to be created regarding the council's role so that members can efficiently perform their duty of governance. The council will have to function as a body for the local authority and its stakeholders as well as in strict observance of good governance rules. All councillors will have to be proactive in governance monitoring to ensure that the quality of governance is ensured and institutional goals are met.

Theoretically, the study contributes to the debate regarding local government governance by the reaffirmation of governance values playing a critical role in the allocation of effective resources. The research suggests that there is a need for councillors to practice good governance if service delivery is to improve. Whereas previous studies identified political interference as an inhibitor to governance, this research provides a further layer of constraint to governance, that is, low awareness by the councillors about the role of governance. It also emphasizes the double mandate of councillors to represent the local council and their political parties, typically at the cost of institutional governance.

Policy-wise, the study emphasizes the need for stricter enforcement of corporate governance compliance. The culture of good governance is founded on the "comply or explain" philosophy, whereby governing institutions are required to explain any deviation from stipulated governance standards. The report emphasizes the importance of implementing adequate accountability structures to ensure that governance breakdowns are contained. Non-compliance with internal controls means that the Namibian local authorities must revisit their governance policies and align its operations with regulatory requirements. Strengthening internal governance structures and governance framework compliance will be critical in strengthening accountability and service delivery at the local government level.

ACKNOWLEDGMENT

We acknowledge the contribution of the local authorities that took part in the study. We also recognize the individuals' participants that took part in the interview.

REFERENCES

1. Sifile, O., Mabvure, T., Manuere, F. & Morris, T., (2018). Impact of CG on service delivery in Murewa Rural District. European Journal of Business and Management, 10(6).
2. Eke, Emenike, Stephen, Gembu, Ogbette, & Samuel., (2018). Local government administration and good governance in Nigeria. Journal of Humanities and Social Science, 23(3), 7-14.
3. Krah, R. D. Y., & Martens, G., (2020). Transparency in local governments: Patterns and practices of twenty-first century. State and Local Government Review, 52(3), 200-213.
4. Bett, E. K. & Tibbs, C. Y., (2017). Conceptual study of CG & firm financial performance of listed companies. International Journal of Economics, Commerce and Management, 5(11), 624-637.
5. Abakose, S. A., & Abagojam, A., (2021). Good governance practices and public service delivery in Jimma Town, Ethiopia. International Journal of Scientific & Engineering Research, 12(1), 840-844.
6. Keping, Y., (2018). Governance and good governance: A new framework for political analysis. Fudan Journal of the Humanities and Social Sciences, 11, 1-8.
7. Alessandro, G., & Nietlispach, M., (2021). Corporate Governance and Risk Management: Lessons (Not) Learnt from the Financial Crisis. Journal of Risk and Financial Management, 14(419), 1-19.
8. David, N. L., Chai, L., Ling, P. T., & Fong, L. S., (2021). An Evaluation of Corporate Governance Characteristics and Corporate Performance between Government-Linked Companies (GLCs) in Malaysia and Singapore: A Panel Data Analysis. SHS Web of Conferences, 124, 2-10.
9. Nyamudzodza, J., Mthombeni, A., Siziba, A., Sifile, O., & Manuere, F., (2021). Corporate governance practices by rural district councils (RDCs) in Zimbabwe. A Review of Related Literature. Diverse Journal of Multidisciplinary Research (DJMR), 3(7), 13-18.
10. Daiser, P., Ysa, T., & Schmitt, D., (2017). Corporate governance of state-owned enterprises: A systematic analysis of empirical literature. International Journal of Public Sector Management, 30(5), 447-466.
11. Younas, A., (2022). Review of Corporate Governance Theories. European Journal of Business and Management Research, 7(6), 79-82.
12. Khan, H. (2011, December). A literature review of corporate governance. In International Conference on Ebusiness, management and Economics, 25(1), 1-5).
13. Ali, M., (2018). Impact of corporate governance on firm's financial performance: A comparative study of developed and non-developed markets. Arabian Journal of Business and Management Review, 2(1), 15-30.
14. Nguyen, T. T. M., Evans, E., & Lu, M., (2017). Independent directors, ownership concentration and firm performance in listed companies. Pacific Accounting Review, 29(2), 204–226.
15. Mbaku, J. M., (2020). Good and inclusive governance is imperative for Africa's future, Washington DC: Brookings Institution.
16. Afza, T., & Nazir, M. S., (2014). Theoretical perspective of corporate governance: A review. European Journal of Scientific Research, 119(2), 254-264.
17. Yusoff, W. F. W., & Alhaji, I. A., (2014). Insight of corporate governance theories. Journal of Business & Management, 1(1), 52-63.
18. Freeman, R. E. (1984). Strategic Management: A Stakeholder Approach. Boston: Pitman Publishing Inc.
19. Klepczarek, E., (2017). Corporate governance theories in the new institutional economics perspective. The classification of theoretical concepts. Studia Prawno-ekonomiczne, 243-257.
20. Chrisman, J. J., (2019). Stewardship theory: Realism, relevance, and family firm governance. Entrepreneurship Theory and Practice, 43(6), 1051–1066.
21. Abdullah, H., & Benedict, V., (2009). Fundamental and ethics theories of corporate governance. Middle Eastern Finance and Economics, 4, 86-96.

22. Beshi, T. D., & Kaur, R., (2019). Public trust in local government: Explaining the role. Public Organization Review, 20(1), 337-350.
23. Armstrong, A., & Li, Y., (2022). Governance and sustainability in local government. AABFJ, 16(2), 12-31.
24. Mbecke, P. (2014). Corporate municipal governance for effective and efficient public service delivery in South Africa. Journal of Governance and Regulation, 3(4), 98-106.
25. Cadbury Report., (1992). Report of the committee of the on the financial aspects of corporate governance: The code of best practice. London: Gee Professional.
26. CIPFA, 2016. Delivering good governance; Guidance Notes for policing bodies in England and Wales. London: The Charted Institute of Public Finance and Accountancy.
27. Nyakurukwa, K., & Seetharam, Y., (2022). Corporate governance in a weak legal environment: A systematic review focusing on Zimbabwe. Qualitative Research in Financial Markets, 1755-4179.
28. Dube, C., (2019). Main bottlenecks at the local authority level that could pose challenges for growth and sustainability. Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU), 1-42.
29. Ndevu, Z. & Muller, K., (2018). A conceptual framework for improving service delivery at local government in South Africa. African Journal of Public Affairs, 10(4), 181-195.